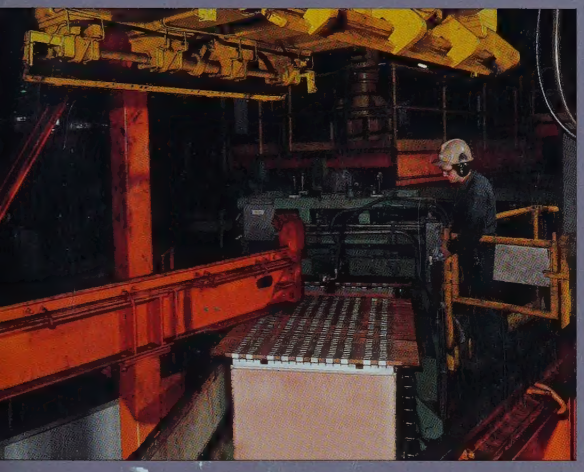
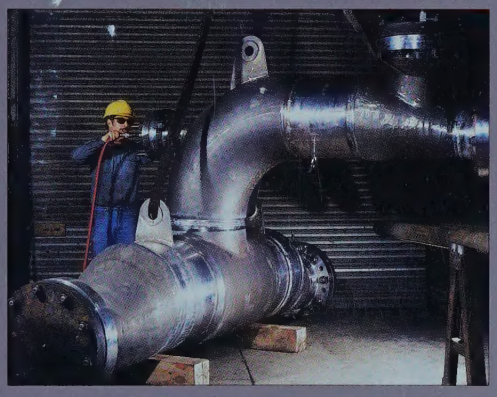
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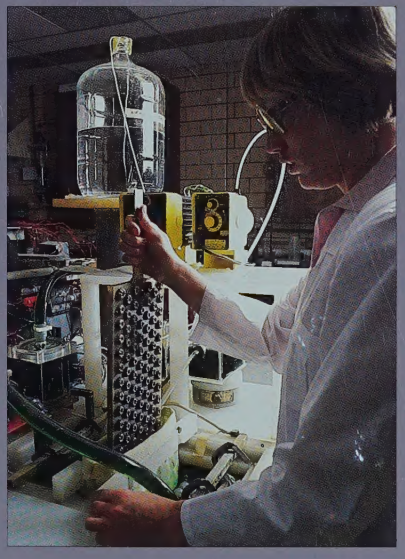


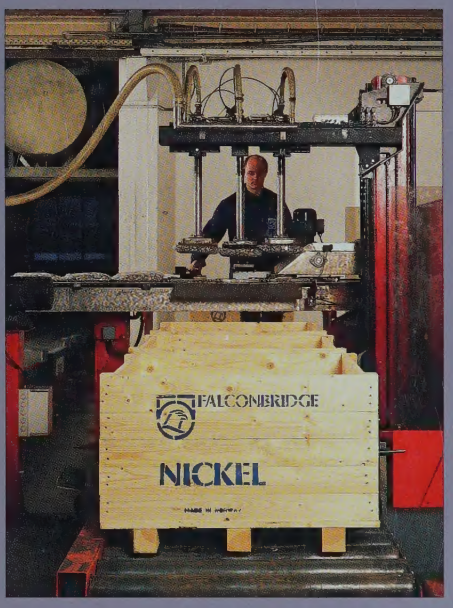












Non-traditional images of mining: Computer enhanced magnetic image used for exploration; computerized mine design; computerized copper refinery operation; reforestation; high-nickel casting; laboratory process development; and automated packaging equipment.

FALCONBRIDGE LIMITED

ANNUAL REPORT 1988



Senior executives of Falconbridge Limited:
(left to right)

ØYVIND HUSHOVD
Vice-President, Controller and Chief Financial Officer

MICHAEL PARRETT
Vice-President and Treasurer

MICHAEL KNUCKEY
Vice-President Exploration

WARREN HOLMES
Manager — Mines, Sudbury Operations

JOHN GILLIES
Vice-President Marketing and Sales

MICHAEL AMSDEN
Vice-President and General Manager, Kidd Creek Division

WILLIAM JAMES
Chairman of the Board, President and Chief Executive Officer

EIVIND WIGSTOL
Managing Director, Falconbridge Nikkelverk

FRANK PICKARD
Vice-President Metallurgy and Engineering

TONY SETH
General Counsel and Secretary

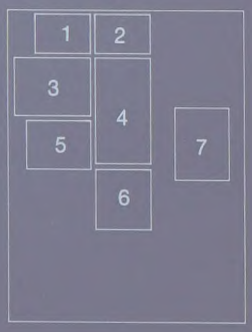
BRIAN FERGUSON
Vice-President Mining

Absent from photograph:

JOHN CLELLAND
President and General Manager, Falconbridge Dominicana

MICHAEL HUGHES
Vice-President Marketing and Sales, Kidd Creek Division

GEORGE REED
Vice-President and General Manager, Sudbury Operations



Front cover

1. **Structural details of the Sudbury Basin shown by computer enhanced magnetic imagery is used in the search for new mines.**
2. **Gerry Allan, microseismic technologist at Sudbury Operations' Lockerby Mine, uses a software package to aid in mine design.**
3. **Robert Quirion checks anodes produced in Kidd Creek's automated copper refinery.**
4. **Reforestation of open-pit mining area at Falconbridge Dominicana.**
5. **Lorne Hocaluk grinds a weld on a 32 per cent nickel casting at the Fahramet division of Indusmin.**
6. **Technician Linda Boyd experiments to improve ways of making nickel crown products at the Metallurgical Technology Centre.**
7. **Olav Didriksen monitors packaging of nickel crowns on automated equipment recently installed at the refinery in Norway.**

FALCONBRIDGE LIMITED

Falconbridge Limited is an international resource corporation which since 1928 has been engaged in the exploration, development, mining, processing and marketing of metals and minerals. Its products include nickel, ferronickel, copper, zinc, cobalt, cadmium, silver, gold, platinum group metals, various metal concentrates, industrial minerals, specialty steel castings and sulphuric acid.

The Falconbridge Group of companies has operations in Canada, Norway, the Dominican Republic and Zimbabwe; marketing and sales offices in Toronto, Brussels, Pittsburgh, Tokyo and Bermuda; research laboratories in Canada and Norway; and exploration offices in Canada and abroad.

The Corporation is committed to long-term growth through discovering and developing new orebodies, improving methods of mining and metals recovery, creating new markets and products and acquiring compatible assets.

Falconbridge is dedicated to meeting its social responsibilities by remaining an economically viable employer, providing a healthy and safe workplace and protecting the environment.

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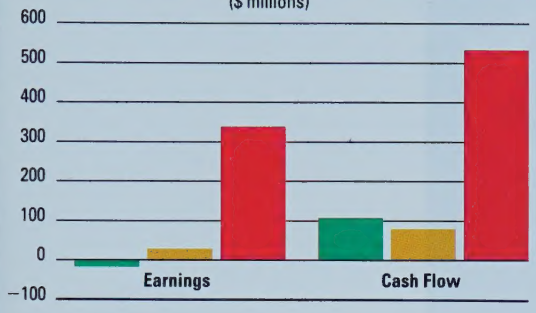
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Annual Meeting of Shareholders
Thursday, April 20, 1989
10 a.m.
Commerce Hall
Concourse Level
Commerce Court West
Toronto, Ontario

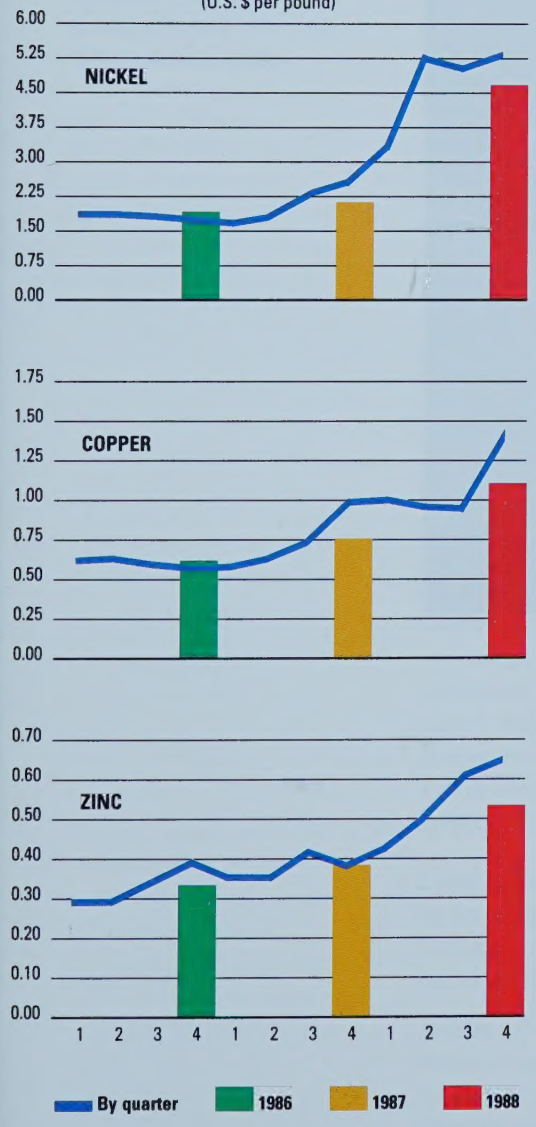
HIGHLIGHTS OF 1988

	1988	1987	1986
Revenues	$2,123,837,000	$1,339,825,000	$1,145,480,000
Earnings (loss) for the year before extraordinary items	341,103,000	29,697,000	(15,518,000)
— per share	4.57	0.42	(0.27)
Earnings for the year	341,103,000	73,120,000	70,269,000
— per share	4.57	1.03	1.21
Working capital	388,493,000	598,518,000	559,217,000
Total long-term debt	815,687,000	743,634,000	1,217,954,000

EARNINGS AND CASH FLOW FROM OPERATIONS
($ millions)



AVERAGE SELLING PRICES
(U.S. $ per pound)



- Record earnings of $341 million
- Special cash dividend paid of $4.75 per share
- All-time high prices for nickel, ferronickel, copper and zinc
- Buy-back of Placer Dome Inc.'s interest in Falconbridge and acquisition of McIntyre Mines Limited
- Record earnings and nickel shipments from Falconbridge Dominicana
- Record outputs from the refinery in Kristiansand, Norway
- Record output from the Kidd Creek copper smelter and refinery
- Shaft sinking commenced on $44 million Lindsley exploration project
- Purchase of 19.9% of Falconbridge's shares by Noranda Inc.



Donald Ferguson operates a mechanized rock bolter-screener at the 4300 foot level of Sudbury Operations' Onaping Mine.

1988 was a great year with record earnings of $341 million. Cash of $536 million provided by operating activities was greater than consolidated revenues of $483 million only six years earlier. All-time high prices for a number of Falconbridge's products combined with outstanding performances at many of its operations contributed to this result.

Report of the Directors to the Shareholders

Record prices were realized during the year for the Corporation's principal base-metal products: copper – U.S.$1.12 per pound; nickel – U.S.$4.72; ferronickel – U.S.$4.81; and zinc – U.S.$0.54. Prices rose because the strong performance of Western World economies increased demand for base metals, while supplies were held down by a lack of new production capacity caused by prices being too low for too long. As a result of these higher prices and increased sales volumes, revenues increased from $1.3 billion in 1987 to $2.1 billion in 1988.

Falconbridge was well-positioned to take advantage of these favourable base metal price conditions because of the acquisition and diversification program implemented three years ago. This was accomplished by the acquisition of Kidd Creek, one of Canada's largest producers of zinc and copper; the expansion of the Kristiansand refinery; the agreement for the long-term supply of additional nickel matte from BCL Limited in Botswana and by increasing our interest in Falconbridge Dominicana. These moves are now paying off.

Corporate Developments

In January, 1988, $143 million was raised by issuing 6 million common shares and 3 million common share purchase warrants.

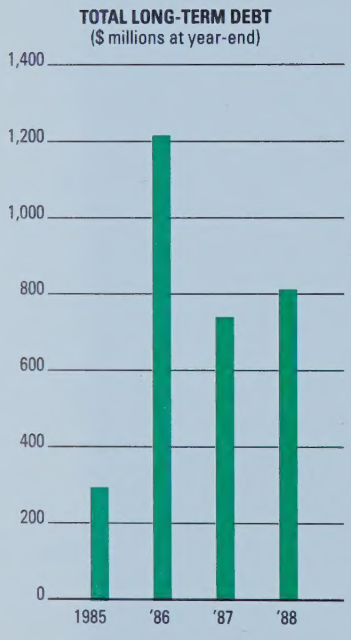
In May, Placer Dome Inc. announced that it was seeking bids for its interest in Falconbridge which it held directly and through McIntyre Mines Limited. The Falconbridge Board of Directors decided that it was in the best interests of its shareholders to buy back these shares. On June 30, 1988, Placer Dome accepted Falconbridge's bid, receiving $25.75 per share and a special cash dividend of $4.75 paid to all shareholders.

As of January 24, 1989, Falconbridge Limited had acquired all of the outstanding common shares of McIntyre, which became a wholly owned subsidiary. McIntyre's holding of 9.2 million common shares of Falconbridge is its only significant asset.

The number of shares for calculating earnings per share is now approximately 66 million compared to 74.7 million for 1988. Shareholders' equity per common share at December 31, 1988, was $18.04, after dividends of $4.87, compared to $20.68 at the end of 1987.

The cost of the purchase of shares and the special $4.75 cash dividend was $949 million in 1988. Of this amount, $413 million was paid as dividends to all shareholders and $536 million was the cost of acquisition of the Falconbridge and McIntyre shares. To finance these transactions, the Corporation used cash on hand of $291 million, and borrowed $658 million. Because of strong operating cash flow which permitted the repayment of $404 million, long-term debt increased by only $72 million to $816 million at year end. The debt to equity ratio was 41:59 at December 31, 1988 compared to 33:67 at the end of 1987.

At the end of the year, Noranda Inc. owned 14,870,200 shares of the Corporation, (19.9 per cent of those outstanding) and had filed notice with The Toronto Stock Exchange that it may make normal course purchases of



up to an additional 10 per cent by the end of May 1989.

On February 21, 1989, the Corporation declared a cash dividend of one dollar per common share, payable on March 17 to shareholders of record at the close of business on March 10, 1989.

Business Developments

The Corporation's program of expansion and renewal in its core base metal businesses gathered momentum in 1988. Net preproduction, development and capital expenditures rose to $165 million from $118 million in 1987, and it is planned to increase these to $233 million in 1989.

Approximately half the 1988 capital expenditures were made to ensure continuity of production from Sudbury Operations. Strathcona Mine's new high-grade deep-copper zone and deep nickel-copper zones in the Fraser Mine are expected to be operating at full capacity in 1989 and 1990, respectively. Work is also underway to bring the Craig mine into production. This mine will account for a substantial portion of Sudbury nickel production well beyond the year 2000. Proven, probable and drill-indicated reserves at Craig are 15 million tonnes of 2 per cent nickel.

At Kidd Creek, studies are underway to develop the No. 3 mine below the 4600 foot level which is at present the lowest mining horizon. A $46 million program will be necessary to develop the three million tonnes of reserves above the 5200 foot level.

Capital expenditures of $8 million were made in the Dominican Republic to develop new mining areas that are expected to permit operations at current rates for at least the next ten years.

Falconbridge is increasing its investment in base metal exploration particularly near its major operations in Timmins and Sudbury. Exploration expenditures amounted to $38 million in 1988 compared to $25 million the previous year and are budgeted to be $57 million in 1989. Approximately 85 per cent of these funds is being spent in the search for base metals.

On July 19, 1988, the Board of Directors approved the sinking of an exploration shaft at the Lindsley property near Sudbury. Extensive surface diamond drilling had indicated four small, potentially mineable zones of nickel and copper bearing ore, with significant additional precious metals content. The estimated total cost of the shaft and underground exploration program is $44 million. A mine on this site could commence production later in the next decade.

A new collective agreement, effective until August 21, 1991, was reached with the Mine, Mill and Smelter Workers' Union at Falconbridge's Sudbury Operations in August, following a 10-day strike.

Falconbridge Gold Corporation, a new subsidiary formed in December, 1987, owns the Owl Creek and Hoyle Pond gold mines in Timmins, and will actively explore and develop gold properties in Canada. Initially, this company's exploration efforts will be concentrated on its properties in the Timmins area, continuing programs initiated by Falconbridge.

Under the provisions of the share buy-back agreement, on January 31, 1989, shareholders received one share of Falconbridge Gold for every 10 shares of Falconbridge Limited. As a result, Falconbridge owns approximately 51 per cent of Falconbridge Gold, which is now listed on the Toronto and Montreal Stock Exchanges.

On May 26, 1988, Falconbridge Dominicana, C. por A. (Falcondo), signed an agreement with the Government of the Dominican Republic changing the tax provisions of the original contracts governing Falcondo's operations, and ending a dispute that began in November 1987. In spite of this dispute and a curtailment of production, Falcondo's ferronickel shipments in 1988 were a record. The company reported a profit of U.S.$88 million for the year (after taxes of U.S.$123 million) compared with 1987 earnings of U.S.$13 million.

General Outlook

Sustained high base metal prices combined with the benefits of cost containment in recent years produced a strong performance in 1988. However, management is not becoming complacent.

Prices can move down as rapidly as they have risen. The Canadian dollar has appreciated by 14 per cent against its U.S. counterpart during the last two years and this erodes Falconbridge's competitiveness, particularly against producers in developing countries where wage rates are sometimes only a fraction of those in Canada. The effect of these factors is masked during high price periods, but becomes rapidly apparent when prices fall.

Accordingly, as well as actively looking for new growth opportunities in the metals business, Falconbridge will continue to seek cost reductions through new investment, new technology and greater employee involvement.

Falconbridge strongly supports the concept of responsible and sustainable resource development and multiple land use. However, exploration is becoming more expensive and the future development of new discoveries is made more uncertain by the continued withdrawal of public lands from mineral exploration, particularly in the provinces of Ontario and British Columbia.

Falconbridge is Ontario Hydro's largest customer and an assured supply of reasonably priced electrical power is essential to its business. Projections indicate that by the mid-1990s there will be a shortage of electricity in Ontario unless prompt action is taken to provide additional generating capacity. Ontario Hydro must ensure an adequate supply of power to its industrial customers so that the province's prosperity can continue to grow.

Falconbridge is committed to environmentally sound operations. A $38 million plan has been developed and submitted to the Ontario Ministry of the Environment that will allow Sudbury Operations to meet the 1994 sulphur dioxide (SO_2) emission limit when operating at full capacity. At Kidd Creek (where 98.5 per cent of SO_2 is captured), changes to smelter operations will reduce and probably eliminate short periods of ground level SO_2 excursions. The Corporation participates on various industry and government committees to assist in formulating regulations and guidelines regarding air and water quality.

Acknowledgements

Michael S. Parrett was appointed Treasurer of the Corporation in January 1988, and was made Vice-President and Treasurer in July. In April, Øyvind Hushovd, Controller and Chief Financial Officer, was made a Vice-President of the Corporation. Also in April, Brian A. Ferguson was made Vice-President Mining of the Corporation and in August was appointed Chairman and President of Falconbridge Gold Corporation.

On January 26, 1989, Tony Ryan, Managing Director of Falconbridge Investments (Zimbabwe), died in a car accident. Mr. Ryan made a great contribution for over 21 years with Falconbridge and he will be sadly missed.

After Placer Dome sold its interest in the Corporation, Fraser M. Fell, Q.C. and John S. Walton resigned as Directors of Falconbridge Limited. The counsel of these Directors during the years they served on the Board is appreciated.

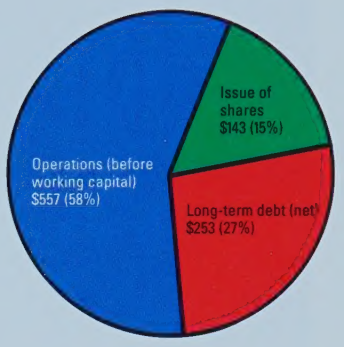
The Board of Directors also appreciates the hard work and innovativeness of all Falconbridge employees. The Board extends sincere thanks to Falconbridge customers who have shown patience, understanding and loyalty during the periods of tight metals supply in the past year.

On behalf of the Board of Directors,

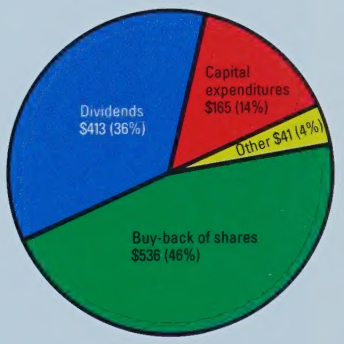
William James,
Chairman of the Board,
President and Chief Executive Officer

Toronto, February 21, 1989

1988 CASH INFLOW
(Total - $953 million)



1988 CASH OUTFLOW
(Total - $1,155 million)





Ray Holopainen monitors zinc slabs from the automatic stacking machine at Kidd Creek.

Sales and marketing offices are located in Toronto, Pittsburgh, Brussels, Tokyo and Bermuda. The 88 employees in this group are responsible for the marketing and sales of all Falconbridge products except those of Indusmin. The products sold include nickel, ferronickel, copper, copper concentrates, zinc, zinc alloys, zinc concentrates, cobalt, cadmium, gold, silver, platinum group metals, lead concentrates and sulphuric acid.

MARKETING AND SALES

Through Falconbridge International Limited, the marketing and sales team is responsible for the acquisition of material for custom treatment. It also acts as sales agent for custom refined metals.

Falconbridge sells part of its production either through long-term contracts or forward commitments. Most of these arrangements are concluded in the quarter prior to delivery. Consequently, in periods of rapid price escalation the average annual prices realized by Falconbridge for its products may be below prices recorded on the Metal Exchanges, where only marginal volumes are transacted. Conversely, when prices fall, Falconbridge's realizations can be higher than those on the open market.

Average Metal Prices Received by Falconbridge

Metal	Pricing Unit	1988	1987	1986
Nickel	pound	U.S.$4.72	U.S.$2.17	U.S.$1.96
Ferronickel	pound	4.81	2.04	1.85
Copper	pound	1.12	0.78	0.63
Zinc	pound	0.54	0.39	0.34
Cobalt	pound	6.91	6.39	7.26
Cadmium	pound	5.09	1.45	1.02
Gold	ounce	438	443	358
Silver	ounce	6.64	7.01	5.46
Platinum	ounce	514	551	438
Palladium	ounce	122	126	112
Exchange rate (U.S. $1 = Cdn.$)*		$1.23	$1.33	$1.39

*Based on the average of the exchange rates on the last day of each month during the year.

METAL MARKETS

Continued strength in the major economies of the Western World resulted in record demand and prices for most of Falconbridge's major metal products in 1988. Nickel prices on the London Metal Exchange (LME) peaked at U.S.$10.84 per pound on March 28 (from a previous high of U.S.$3.25 in 1980) and copper prices rose to U.S.$1.69 per pound on December 8 (from a previous high of U.S.$1.49 in 1974). Zinc prices reached U.S. 76 cents per pound on November 29 (the highest level reached since May 1974).

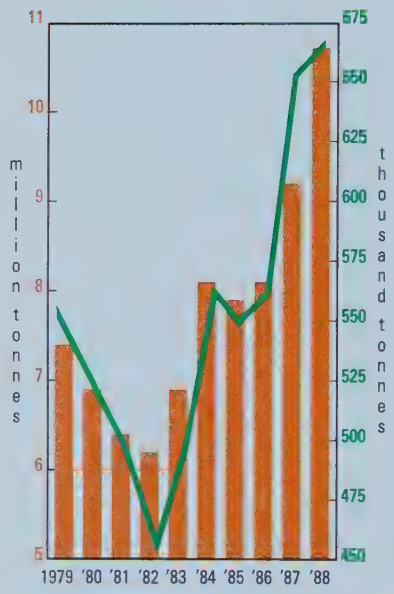
In the United States, capital spending was very high in spite of the October 1987 stock market crash. The relatively low exchange rate continues to keep U.S. exports strong while the domestic economy remains healthy. In Japan, the domestic sector continues to perform well, but the export sector has suffered because of the strength of the yen. European economies remained generally strong with growth in both the domestic and export sectors.

Following are brief descriptions of how the markets behaved for the major metals sold by Falconbridge during 1988.

NICKEL

Western World nickel consumption in 1988 was a record 670,000 tonnes. Output of 555,000 tonnes from the Western World was limited by a number of production problems and net exports from East Bloc countries were

WESTERN WORLD
STAINLESS STEEL PRODUCTION
AND NICKEL CONSUMPTION



70,000 tonnes. As a result, there was a supply shortfall and a reduction in inventories. Producer inventories fell marginally to 64,000 tonnes by year end, the lowest level in many years and LME stocks fell by 1,500 tonnes over the year.

These factors combined to produce a year memorable for its sustained high prices. The LME nickel price averaged U.S.$6.25 per pound in 1988, compared with U.S.$2.19 in 1987.

Western World stainless steel production, which accounts for at least 55 per cent of nickel use, was the driving force behind the record demand, reaching 10.7 million ingot tonnes, a 16.5 per cent increase over 1987.

As a result, demand for primary nickel set new records in Japan and Europe in 1988, while nickel consumption in the U.S. was about the same as the previous year.

COPPER

During 1988, LME copper traded at historically high levels. From U.S.$1.45 per pound in early January, prices weakened by mid-year to U.S.$0.95 but then strengthened over the balance of the year to U.S.$1.54 at year end because of production problems within the industry and increased demand. In 1988 the LME Grade A price averaged U.S.$1.18 per pound, compared with U.S.$0.80 in 1987.

Western World copper consumption rose 5.3 per cent in 1988 to a record level of 8.5 million tonnes. In the U.S.A., Europe and Japan, strong consumer and capital spending resulted in increased demand for copper in all forms.

Western World refined copper production in 1988 increased by 2.3 per cent to 7.8 million tonnes, mainly as a result of higher production in the U.S.A. and Canada. There were production problems in Chile, Peru, Zaire and Zambia. Net exports by East Bloc countries increased by 27,000 tonnes to 140,000 tonnes.

A substantial part of the shortfall in copper supply was made up by a reduction in inventories. Producer stocks are estimated to have fallen by 100,000 tonnes, with substantial tonnages also coming from unreported sources. In spite of these overall reductions, total Metal Exchange stocks at December 31, 1988 were 78,000 tonnes, 8,000 tonnes higher than at the end of 1987.

Sale of products by Falconbridge

Metal	Unit	1988	1987	1986
Nickel	tonnes	52,200	46,200	41,300
Ferronickel	tonnes	29,400	31,100	23,500
Copper	tonnes	171,800	176,500	165,700
Zinc	tonnes	135,200	117,200	137,400
Zinc concentrate	tonnes	199,100	116,100	75,100
Cobalt	tonnes	1,700	1,500	1,700
Cadmium	tonnes	470	610	520
Gold	ounces	102,500	115,800	238,600
Silver	ounces	8,000,000	8,600,000	8,100,000
Platinum	ounces	25,800	25,800	16,600
Palladium	ounces	41,200	31,100	23,600
Sulphuric acid	tonnes	891,000	684,000	745,000

ZINC

Zinc was in short supply throughout 1988 and prices rose to near record levels. The LME High Grade average cash price for 1988 was U.S. $0.51 per pound, compared to U.S.$0.36 in 1987. The average High Grade price for North American producers as published in *Metals Week* was U.S.$0.60 per pound in 1988, compared to U.S.$0.42 in 1987. A Special High Grade contract was introduced on the LME in 1988, resulting in the elimination of the European Producer Price.

Western World consumption of zinc rose by 5.4 per cent in 1988 to a record 5.3 million tonnes with all major market areas experiencing growth. Galvanized steel, which accounts for 50 per cent of zinc consumption, was the driving force behind this increased demand.

The Western World produced 5.3 million tonnes of zinc in 1988, an increase of 4.1 per cent. Both Europe and South Korea increased output during the year. Net imports of zinc metal by East Bloc countries were 41,000 tonnes.

At year end, total stocks held by producers, consumers and merchants were estimated to have fallen by 33,000 tonnes to 541,000 tonnes.

Cobalt

Western World cobalt production during 1988 remained unchanged from 1987 levels at 23,000 tonnes. African producers continue to supply 70 per cent of all cobalt to Western World countries.

Consumption was 21,000 tonnes, buoyed by strong demand in the super-alloy and chemical industries in the United States and the magnetic alloy industry in Japan. About 2,000 tonnes of cobalt is exported each year to East Bloc countries. As a result of the current strength in demand, Zaire and Zambia raised their producer price for cobalt on November 4, 1988 to U.S.$8.40 per pound from U.S.$7.50.

Cobalt stocks held by producers were unchanged at 14,000 tonnes by year end 1988.

Cadmium

The cadmium price reached a new high in 1988. From U.S.$3 per pound in January it peaked in March at U.S.$9, declined during the summer and recovered to U.S.$8 by year end. The average New York dealer price for cadmium as published by *Metals Week* was U.S.$6.91 in 1988, compared with U.S.$1.99 the previous year.

Cadmium is consumed in coatings, pigments, stabilizers and alloys, but the fastest growing Western World use today is in nickel-cadmium batteries. In China and the Soviet Union, which have just purchased the technology to produce these batteries, the potential applications are extensive.

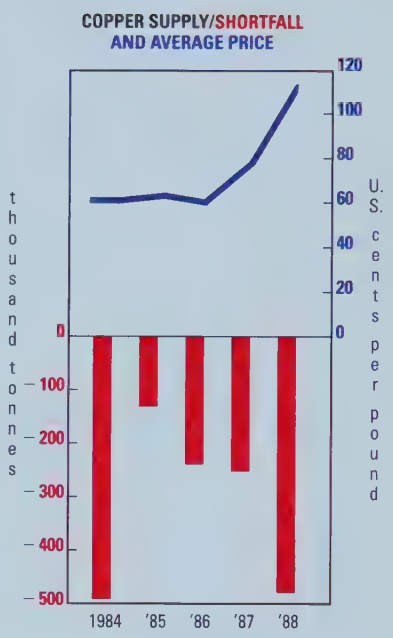
Western World refined cadmium production was 16,800 tonnes in 1988, a 1,000-tonne increase over 1987, because of marginal increases at existing plants. Despite the increase in production, Western World inventories were apparently reduced by between 1,000 to 1,800 tonnes to meet strong demand.

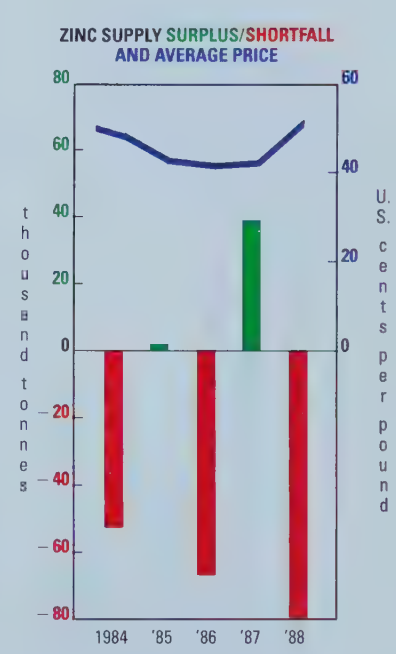
Precious Metals

A number of forces, including the rise in interest rates, caused the price of gold to decline from U.S.$486 per ounce on December 31, 1987 to U.S.$411 on December 30, 1988. The LME average price for gold in 1988 was U.S.$437 per ounce, compared with U.S.$446 in 1987.

Silver prices fluctuated within a relatively narrow range in 1988, peaking in July at U.S.$7.99 per ounce, up from U.S.$6.66 on December 31, 1987. On December 30, 1988 silver traded at U.S.$6.00. For the year, the Handy & Harmon silver price averaged U.S.$6.54 compared with U.S.$7.01 in 1987.

Platinum prices increased during the first half of the year, from U.S.$503 per ounce to U.S.$615 in June. However, the market weakened by year end after the Ford Motor Company announced that it had developed a platinum-free catalytic convertor. On December 30, 1988, the platinum price was U.S.$517. The average platinum price for 1988 was U.S.$531 compared with U.S.$559 in 1987.







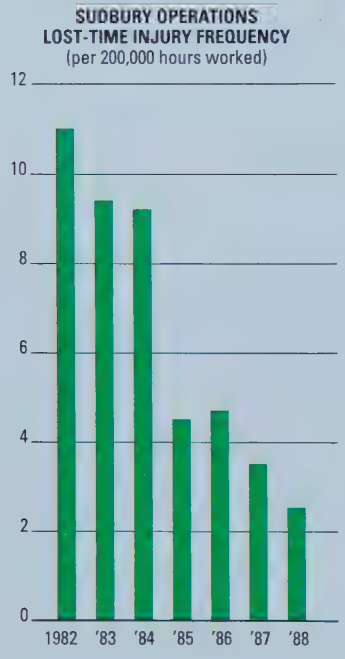
GEOGRAPHIC DISTRIBUTION OF SUDBURY OPERATIONS

Review of Operations

Integrated Nickel Operations

The business units of the Integrated Nickel Operations (INO) are interdependent. Included in the INO are Sudbury Operations, the Refinery in Kristiansand, Norway, and the custom feed business.

($ millions)	1988	1987	1986
Revenues	$902	$469	$401
Operating income	283	65	16



Sudbury Operations

In 1988, 2.6 million tonnes of ore were delivered to concentrators from mines in the Sudbury area, compared with 2.4 million tonnes in 1987. Nickel production increased to 31,400 tonnes from 27,900 tonnes in 1987. Copper output, including metal in concentrate, increased to 28,100 tonnes in 1988 from 26,300 tonnes the previous year. Cobalt production increased to 840 tonnes from 730 tonnes a year earlier. There was a 10-day strike and a scheduled three-week summer shutdown in 1988, while in 1987 there was a planned 10-week shutdown.

The East, Fraser, Lockerby, Onaping and Strathcona underground mines, along with the Falconbridge Open Pit, operated throughout 1988, as did the Strathcona concentrator and the smelter. The Falconbridge Mill was shut down in February 1988 and its employees were reassigned within Sudbury Operations. The Falconbridge Open Pit is scheduled to close in the first quarter of 1989. East Mine, where continued operation was possible in 1988 because of higher prices, is scheduled to close in the fourth quarter of 1989 due to the exhaustion of ore reserves.

A two-week vacation shutdown of Sudbury Operations is scheduled for July 1989.

At year end, proven, probable and drill-indicated ore reserves were estimated at 48.0 million tonnes, grading 1.65 per cent nickel and 1.49 per cent copper. At the end of 1987, ore reserves were estimated at 46.3 million tonnes, grading 1.54 per cent nickel and 1.40 per cent copper. The increase in ore reserves of 1.7 million tonnes is the first improvement since 1971. The grade at the end of 1988 is the highest since 1951. Current reserves are equivalent to about 19 years of production.

Capital expenditures focussed on developing ore reserves, reducing costs and providing safety, productivity and environmental improvements. In 1988, mine preproduction and development expenditures were $51.5 million compared with $26.8 million in 1987. Net expenditures on property, plant and equipment were $29.0 million compared with $14.5 million the previous year.

The 1988 expenditures relate to further delineation of the Craig orebody, underground construction in connection with the deepening of the Strathcona No. 1 Shaft and ongoing development at the operating mines. Development in the deep copper zone at Strathcona has

progressed according to schedule and the full rate of production should be achieved by the end of 1989. At the Strathcona mill, a comprehensive modernization program commenced.

A three-year collective agreement with the Mine, Mill and Smelter Workers' Union Local 598 representing the Production and Maintenance employees was ratified on August 29, following a 10-day strike. The agreement provides for substantial improvements in pensions and the payment of a quarterly bonus based on the nickel price.

The collective agreement with the Office, Clerical and Technical Workers represented by Local 6855 of the United Steelworkers of America expires on March 1, 1989.

The frequency of lost-time accidents has dramatically improved from 11.0 injuries per 200,000 hours worked in 1982 to 2.5 in 1988, the lowest level on record at Sudbury Operations and 11 per cent lower than the Ontario mining average.

The total medical aid frequency has declined from 18.2 injuries per 200,000 hours worked in 1980 to 12.3 in 1988, 31 per cent below the Ontario mining average. A Total Loss Control Program initiated in 1982, along with dedicated employees and their safety and health committees, is credited with much of the success in injury prevention.

Productivity at Sudbury Operations as measured by pounds of nickel produced per man hour worked has shown a 93 per cent increase since 1981. This increase can be attributed to continuing employee involvement, changes in mining methods, improved grade control, the introduction of new technology and workforce reductions.

At the end of 1988, there were 2,362 employees, compared with 2,185 at the end of 1987 and 4,034 at the end of 1981.

Falconbridge Nikkelverk

The Norwegian Refinery operated continuously throughout 1988 and achieved record production of 52,500 tonnes of nickel, 31,700 tonnes of copper and 1,900 tonnes of cobalt. During 1987 the Refinery produced 44,600 tonnes of nickel, 29,400 tonnes of copper and 1,600 tonnes of cobalt.

In addition, platinum group metals and gold were produced.

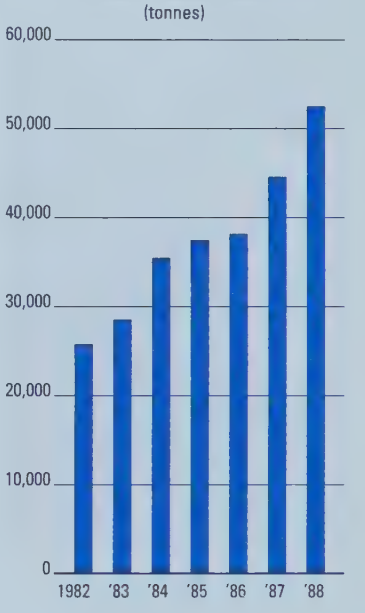
The main sources of feed materials were matte from Sudbury Operations (60 per cent of the total), and matte from BCL Limited of Botswana (30 per cent) which is supplied under a long-term contract.

With the completion of expansion projects, capital expenditures at the refinery decreased to $10 million in 1988 compared with $27 million in 1987.

The refinery performed well and the high quality standards of Falconbridge products continued to be met.

While production has risen steadily during the last three years, the number of employees has declined, reflecting significant labour productivity gains. At the end of 1988, there were 800 employees at the refinery, compared with 817 at the end of 1987 and 1,215 at the end of 1981.

FALCONBRIDGE NIKKELVERK NICKEL PRODUCTION
(tonnes)



Kidd Creek

Kidd Creek is an integrated mining and metallurgical complex located at Timmins producing copper, zinc, cadmium and silver. Operations continued steadily throughout 1988 and output from both the copper smelter and refinery reached record highs.

($ millions)	1988	1987	1986
Revenues	$731	$571	$452
Operating income	225	100	58

The Kidd Creek mine produced 4.3 million tonnes of ore, unchanged from 1987. At year end the mine's proven and probable ore reserves to the 5600 foot level were 48.9 million tonnes with a grade of 3.45 per cent copper, 5.08 per cent zinc, 0.15 per cent lead and 63 grams of silver per tonne, compared with reserves of 50.6 million tonnes at the end of 1987.

Net capital expenditures increased to $42.7 million. Of this amount, mine expenditures were $14.7 million largely due to a new electric truck haulage system; and metallurgical expenditures were $21.7 million, due primarily to process upgrades and tank replacements in the zinc plant. Capital expenditures in 1987 were $30.5 million.

A deep diamond drilling program has resulted in the extension of the ore reserves from the 5000 foot level to the 5600 foot horizon. This program will be continued into 1989. Ore reserves are equivalent to almost 17 years production at planned operating rates.

The orebody at Kidd Creek is diminishing in width with increasing depth. Consequently, as mining deepens, the annual production rate is expected to decrease by about 180,000 tonnes per year.

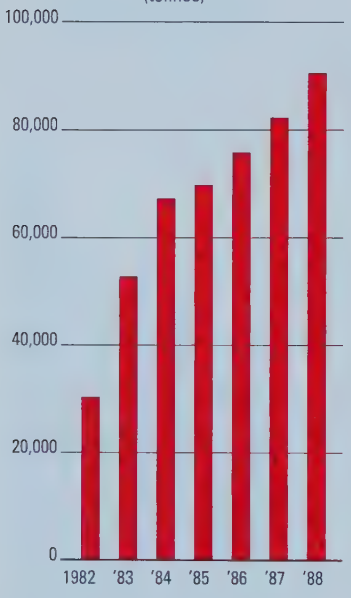
Copper production from the Kidd Creek refinery in 1988 increased to 90,700 tonnes from 83,500 tonnes in 1987. Copper concentrate shipped to others for tolling was 118,000 tonnes, a decrease from 149,200 tonnes shipped in 1987.

Zinc production from the reduction plant increased to 124,800 tonnes from 114,400 tonnes in 1987. Output was restricted throughout most of the year due to repairs to the pressure leach autoclave which were completed by year end. The tonnage of zinc concentrate produced for sale increased to 140,800 tonnes from 94,300 tonnes in 1987, and 9,200 tonnes were supplied for toll treatment whereas none was toll treated in 1987.

Silver production declined to 6.7 million ounces, from 7.1 million ounces produced in 1987.

The lost-time injury frequency for 1988 improved dramatically to 1.16 per 200,000 hours worked, compared to 2.18 in 1987. However, the medical aid frequency increased to 13.27 per 200,000 hours worked, compared to 9.58 the previous year. Notwithstanding, the Kidd Creek medical aid frequency was still 25 per cent below the Ontario mining average and its lost time frequency was 58 per cent below the provincial average for the year. At the end of 1988 there were 2,546 employees at the Kidd Creek operations, compared to 2,474 at the end of 1987.

KIDD CREEK
COPPER CATHODE PRODUCTION
(tonnes)



View of Indusmin's mineral processing plant located at Midland, Ontario shows mill and stock-piles of ore.



INDUSMIN

The Indusmin Division produces industrial minerals – silica, nepheline syenite and feldspar, and manufactures specialty steel castings.

In 1988, both revenue and earnings records were established because of an exceptionally strong performance in the Fahramet steel castings operation.

($ millions)	1988	1987	1986
Revenues	$79	$74	$67
Operating income	13	11	11

Indusmin owns the largest feldspathic production facilities in the world with an annual total nepheline syenite and feldspar capacity of 900,000 tonnes. Silica is also a major product with an annual capacity of 1 million tonnes. The major applications for these minerals are in the manufacture of glass, fiberglass, ceramics, vitreous tiles, dinnerware, paints and plastics. In 1988, the division's five open-pit mines in Ontario, Quebec and North Carolina shipped 1.5 million tonnes of product.

The Fahramet foundry at Orillia, Ontario produces a broad range of custom castings and fabricated products for the petrochemical, metallurgical, chemical, steel and original equipment manufacturing industries.

Operating income increased by 18 per cent to $13 million compared with $11 million the previous year.

Sales revenue increases were recorded in most operations with a 17 per cent gain at Fahramet being the most notable. Nepheline syenite sales have been strong, particularly overseas where improvements to Indusmin's marketing and distribution have paid considerable dividends. However, the appreciation of the Canadian dollar exchange rate against the U.S. dollar had a negative impact on revenues and earnings, since 30 per cent of Indusmin's sales are in the United States.

Since distribution is a major cost, Indusmin has established a fleet of 250 railway hopper cars to transport both silica and nepheline syenite, in many cases for a balanced two-way movement of these minerals.

Indusmin's net capital spending was $7 million in 1988 compared to $6 million the previous year. Emphasis was placed on the modernization of production facilities with the objective of increasing efficiencies and reducing costs. To ensure that Indusmin remains a viable, low-cost silica sand supplier, a major $2 million modernization program was approved for the St. Canut, Quebec, silica operation. This adds to the programs completed at St. Canut in 1987 amounting to $3 million.

At the end of 1988, there were 673 employees at Indusmin, compared with 679 at the end of 1987.



Project Superintendent Jim Robinson stands near the recently completed T. L. Exploration shaft headframe on the Lindsley property near Sudbury, Ontario.

The exploration highlight of the year was the decision to proceed with a $44 million underground exploration program to evaluate the economic potential of the Lindsley deposit in Sudbury. The program will involve sinking a 4.9 metre diameter, concrete-lined shaft to an initial depth of 1,660 metres, followed by over two kilometres of development and an estimated 78 kilometres of underground diamond drilling. The program is expected to be completed by the end of 1991.

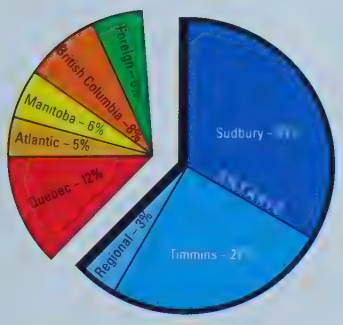
Corporate Activities

Exploration

In 1988, Falconbridge's exploration expenditures were $38 million, up 56 per cent from the $25 million spent the previous year.

Exploration offices are maintained at six locations in Canada and overseas in the Dominican Republic, Botswana and Zimbabwe. Falconbridge has a permanent exploration staff of 78, including 59 geologists.

1988 EXPLORATION EXPENDITURES BY GEOGRAPHIC AREA
(Total - $38 million)



Surface and underground exploration programs continued in the Sudbury Basin for nickel-copper-platinum group metals and were initiated within the Basin for copper-zinc massive sulphide deposits. In the Longvack area, encouraging mineralization was discovered in a large structure in which the Strathcona Deep Copper Zone is located. A major drilling program to explore this structure is planned in 1989.

In the Timmins area, major diamond drilling programs continued in the townships adjacent to the Kidd Creek Mine and in the Kamiskotia area for copper-zinc deposits.

In Quebec, joint ventures continued exploring in the Ungava region for platinum and in the Abitibi area for gold. At the Pelletier Lake property, south of Rouyn, a small gold deposit was discovered which is estimated to contain a possible 1.5 million tonnes of ore, grading 4.3 grams of gold per tonne, or a smaller tonnage of somewhat higher grade. Evaluation of this mineralization is proceeding.

New Quebec Raglan Mines Limited, which is 73.8 per cent owned by the Corporation, indirectly holds mining claims covering 200 square kilometres in the Ungava region of northern Quebec. In 1988, an integrated, detailed airborne geophysical survey was completed. Further work is planned in 1989 to maintain the claims in good standing. Current reserves are estimated at 11 million tonnes at a grade of 3.11 per cent nickel and 0.79 per cent copper. Development of this property depends on strong long-term nickel prices and markets.

Exploration activities from the Vancouver office again focussed on a large joint venture property near Chemainus, Vancouver Island. A mineralized zone containing copper, zinc, silver and gold was traced by drilling for more than 500 metres. Further exploration is planned for 1989.

In the Dominican Republic, exploration for base and precious metals continued. On a concession optioned from another company, a new mineralized zone was discovered with a strike length of about 300 metres. The best drill intersection to date assayed 1.9 per cent copper, 1.7 per cent zinc, and 21 grams of silver per tonne over a core length of 4.95 metres.

In Botswana, a joint venture funded by DeBeers Consolidated Mines Limited has completed an underground bulk sampling program at the GO-25 diamond-bearing kimberlite pipe. The bulk sample is being processed and evaluated at

Chris Lachance, a technician at the Metallurgical Technology Centre, works on a computer-controlled 45 foot high pilot flotation column which has been successfully tested to improve copper/nickel separation at Strathcona Mill.



DeBeers Orapa pilot plant. A second pipe in the same area has shown some encouraging results. Exploration continues for diamonds and precious metals.

In 1988, Falconbridge agreed to purchase the interests in the Collahuasi copper properties in northern Chile held by subsidiaries of Mobil Corporation through a partnership established in 1977. Under the terms of a 1985 agreement, Shell Chile S.A. and Chevron Minera Corporation of Chile have the right to earn a two-thirds interest in the Collahuasi properties for expenditures of U.S.$45 million over an eight year period. The Collahuasi properties contain a major porphyry copper deposit with geological reserves estimated to be in excess of 240 million tonnes grading 1.5 per cent copper and 0.04 per cent molybdenum. Located partly within this deposit, the Rosario vein is estimated to contain a possible 5 million tonnes grading 9.6 per cent copper and 110 grams of silver per tonne. Shell and Chevron are carrying out an underground exploration program to further evaluate this vein.

Technology Development

Falconbridge makes a considerable investment each year in the technical development of new products and processes. Net expenditures on Research and Development (R&D) amounted to $8 million in 1988 compared to $7 million in 1987. However, many development activities take place in an operating environment and cannot be claimed as R&D for tax purposes. Nevertheless, they are crucial to the continuing competitiveness of the Corporation.

Metallurgy

Developments in this area during 1988 were again aimed primarily at obtaining further cost reductions, improving both quality and recovery in existing operations, reducing sulphur dioxide emissions and at treating increased quantities and a broader range of secondary materials. Significant economies in the cost of energy were also realized.

At Sudbury Operations, a four-year R & D program culminated in a $38 million proposal to the Ontario Ministry of the Environment which will allow the metallurgical facilities to meet the 1994 sulphur dioxide (SO_2) emissions limit of 100,000 tonnes per year on a continuous basis when operating at capacity. In the smelter, the roasters will be modified to permit greater capture of SO_2 as sulphuric acid, a saleable by-product. Furnace modifications will also enable better control over metal losses to slag. This plan will be implemented in stages over the next five years.

A comprehensive modernization program is underway in the Strathcona mill. The acquisition and development of a number of new technologies is involved in this scheme including:

- Improved rejection of sulphur-bearing pyrrhotite through both magnetic separation and flotation techniques
- Introduction of more efficient large-volume flotation cells
- Installation of a separate copper treatment circuit, including column flotation units
- Installation of a distributed control system to improve process control
- Slurry densification to reduce transportation costs and metal inventory

At Kidd Creek, telemetering to three environmental stations was installed to provide monitoring of off-property SO_2 levels. The data available from these stations will be used to develop process control strategies to reduce the number of emission level excursions during periods of operating transition. A number of projects were also undertaken to improve product quality. One of these was to increase the production of special high grade zinc. Another was to permit registration of Kidd Creek as a high grade copper producer on the LME and the New York Commodity Exchange (COMEX). Development work is also underway

to assess the applicability of column flotation technology in the zinc flotation circuits of the Kidd Creek mill.

At Falcondo, work continued to improve shaft furnace reduction and control. A technical development program in this area is planned for 1989 to control slag losses and permit higher throughput.

Considerable process development work for Falconbridge's custom feed business is also underway. At both Sudbury Operations and Kidd Creek the suitability of new feeds for smelter treatment was investigated. The range of materials capable of being assayed was broadened and new sample preparation methods were developed to improve quality control.

The Corporation has increased its spending on product development. New zinc and nickel products having higher value-added are under development. At Kidd Creek, test work to produce an indium product continues. Additional work is targeted at improving existing products and increasing customer technical assistance and quality assurance.

Mining

The mining technology group expanded its activities during 1988 to include several major equipment implementation programs in both operating divisions.

At the Kidd Creek Mine a full scale trial using a Dosco roadheader to mine development headings through cemented backfill was successfully completed. Further development of this technology involves improving methods of ground support using Shotcrete and improving machine drive components.

A major installation of a 50-tonne Kiruna electric truck haulage system was completed on the 4400 level of the Kidd Mine to handle ore and waste from below this level.

At Sudbury Operations, an innovative raiseboring machine, the most powerful in North America, has been deployed to bore 600 metre long, 3 metre diameter mine ventilation openings at the Craig Mine which is now under development.

At Strathcona Mine, small scale trackless mining equipment has been successfully introduced, which permits the mechanization of drilling, loading and hauling ores from narrow high grade veins in the copper ore zones.

The development of a three-dimensional computer model for various types of mine stability analysis continued during the year and will be implemented as a practical mine design tool in 1989. In addition, a major computer-assisted mine planning project was initiated which will allow geological and mine engineering functions to be carried out on computer work stations with the goal of maximizing the economic extraction of ore.

Falconbridge funds collaborative mine research and technology transfer projects through various agencies, universities and with other mining companies. During 1988 a major joint project known as CUB (Compact Underground Borer) to introduce small diameter hardrock tunnel boring technology into Canadian mines was initiated jointly with the Canada Centre for Mineral and Energy Technology (CANMET) and other companies. Part of the funding is being provided by the National Research Council's IRAP program. A test tunnel 1,000 metres in length will be bored in a Falconbridge mine.



Technologist Ron Dunn works on laboratory development of chlorine leaching of nickel-copper matte at the Metallurgical Technology Centre.





Wildlife sanctuary downstream from the mine and smelter at Falconbridge, Ontario (left) supports a thriving bird and fish population.

Environmental Control

The Corporation has an Environmental Policy which calls on all employees to incorporate into their planning and daily work the actions necessary to:

> *Protect and preserve the quality of the environment and obey the environmental laws and regulations of each country in which Falconbridge operates.*

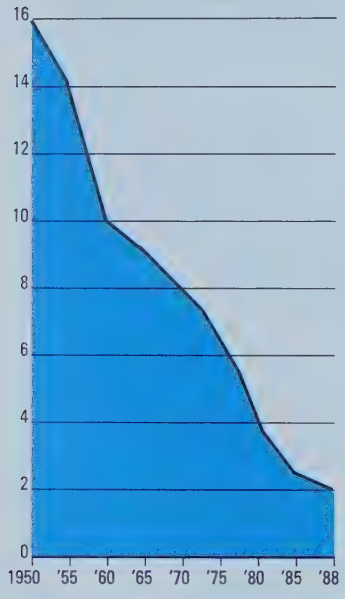
The implementation of this policy requires:

- Facilities to be designed, built and maintained in compliance with these laws and regulations
- All operating procedures to be environmentally acceptable
- Emergency response systems to be formulated and implemented
- Information to be provided to assist Governments in the formulation of realistic and practical rules, regulations and guidelines
- The ability to protect the environment to be improved by research and development
- Employees and agents to be advised of this policy

Consistent with this policy, improvements continue to be made to all water treatment systems to maintain compliance with government legislation.

The Sudbury and Kidd Creek mining operations require over 36 million tonnes of water per year. More than 50 per cent of the total flow is reused. Water treatment now in place enables the effluent composition to be held well under allowable levels and provides an environment in which fish flourish.

TONNES OF SULPHUR DIOXIDE EMITTED PER TONNE OF NICKEL PRODUCED AT THE SUDBURY SMELTER



Reducing sulphur dioxide (SO_2) emissions continues to be one of the Corporation's prime objectives. Ontario regulations require that Falconbridge's Sudbury Operations reduce emissions from the presently allowable 154,000 tonnes per year to 100,000 tonnes per year by January 1, 1994. In December 1988, the Corporation submitted its final report to the Ontario Ministry of the Environment on achieving this objective, and on potential methods of achieving further reductions. The report also detailed the considerable progress that has already been made in reducing total SO_2 emissions.

Kidd Creek operates two acid plants fixing over 98.5 per cent of the SO_2 generated in the sulphide roasting and smelting operations and produces about 500,000 tonnes of sulphuric acid per year. Efforts to improve performance continue, particularly with respect to maintaining a consistently low tail gas concentration of SO_2.

In 1988, the Norwegian refinery further decreased the level of metals in effluents to the sea to well below the allowable limit. The quantity of chlorinated hydrocarbons in effluents has also been decreased, but the level of these compounds found in fish from the inner part of the fjord still exceeds the acceptable level for human consumption. A detailed investigation of sediments and fish in the fjord is planned for 1989.

Information Systems

Computer based systems play an important role in ensuring the competitiveness of Falconbridge by supporting production and process control as well as carrying out traditional business functions. A number of major developments are underway in this area.

Process control systems are being improved. Major projects are either underway or planned in:

- The zinc plant at Kidd Creek
- The Strathcona mill and the smelter at Sudbury Operations
- The roaster and acid plant in Norway

A Comprehensive Smelter Emission Control system has been implemented at Sudbury Operations, as part of Falconbridge's SO_2 control strategy.

An integrated computer system to manage maintenance, supplies' inventories and purchasing is being implemented throughout Sudbury Operations. Work is underway at Kidd Creek to replace existing systems, and a similar project is planned for Kristiansand.

Financial and cost reporting system improvements were completed in 1988 in Sudbury Operations, the Corporate Office and the Dominican Republic. Marketing and Sales is implementing a world-wide information system to provide a higher level of service to Falconbridge's customers.

Health and Safety systems are being developed to ensure that employees have ready access to computerized data sheets relating to hazardous materials.

Employee Relations

Falconbridge is extremely proud of its employees — approximately 9,500 men and women worldwide — and is committed to programs that promote their career development and job satisfaction, and provide them with the skills and experience necessary to meet the challenges of the future.

The following are two examples of the many development activities that took place in 1988:

- Managers from operations in six countries — Canada, United States, Norway, Belgium, Dominican Republic and Japan — took part in an intensive two-week management development program designed to broaden perspectives and enhance skills in business strategy and general management.
- Since Falconbridge is committed to Statistical Process Control (SPC) to enhance product and process quality, training in the use of SPC received special emphasis which will continue in the future as implementation proceeds.

Training and development in the overseas operations continued to focus on the development of local employees. Falconbridge operations in the Dominican Republic, Norway and Zimbabwe are now almost exclusively staffed by citizens of those countries.

Programs are being developed and implemented to assist disabled employees to return to useful and rewarding work. Since the main health-related problems associated with long-term disabilities are either back problems or life-style diseases, Falconbridge has become more involved in encouraging healthier life-styles and in providing modified work, better case management and improved back care.



Aerial view of Falconbridge Gold Corporation's two operating mines: Hoyle Pond in the foreground and the Owl Creek open pit mine in the background.

Subsidiary and Associated Companies

Falconbridge Dominicana, C. por A. (Falcondo)

Shares issued: 3,000,000
Falconbridge Limited's ownership: 2,557,732 shares, or 85.3% at December 31, 1988

Falcondo operates a fully integrated mining and metallurgical processing complex in the Dominican Republic which produces ferronickel.

On May 26, 1988 Falcondo signed an agreement with the Government of the Dominican Republic which changed the tax provisions of the original contracts governing Falcondo's operations. Despite production and shipping restrictions during negotiations which extended from January to May 1988, record shipments and earnings were attained at Falcondo. Falcondo's average sales price in 1988 was U.S.$4.91 per pound, compared to U.S.$2.08 in 1987.

Net profit for 1988 was U.S.$88 million, after provision for taxes of U.S.$123 million, compared to earnings of U.S.$13 million in 1987.

Falcondo produced 29,300 tonnes of nickel in ferronickel in 1988, while shipping a record of 32,400 tonnes of contained nickel. In 1987, 32,500 tonnes were produced while 29,100 tonnes of nickel were shipped.

At December 31, 1988, Falcondo's long-term debt was U.S.$142 million, of which U.S.$121 million is owed to Falconbridge. In 1988, U.S.$83 million in principal and interest was repaid to Falconbridge.

During 1988, steady progress was made on preparing the Loma Ortega ore deposit, located about 35 kilometres northwest of the plant site, for production in 1989. This deposit is estimated to contain approximately 7 million tonnes of reserves grading 1.9 per cent nickel. Major expenditures for land acquisition, mining equipment, load-out facilities, maintenance workshops and other auxiliary structures are expected to total U.S. $8 million when the project is complete.

At year end, ore reserves were 24 million tonnes with a grade of 1.88 per cent nickel, about the same as last year. These reserves are equivalent to about nine years production at current operating rates.

Falcondo had 1,576 full-time employees at the end of 1988, an increase from 1,469 at the end of 1987. All except four employees are citizens of the Dominican Republic.

Falconbridge Gold Corporation

Shares issued: 13,333,272
Falconbridge Limited's ownership: 6,744,655 shares, or 50.6% at January 31, 1989

Falconbridge Gold Corporation, previously a wholly-owned subsidiary, became a publicly held corporation on January 31, 1989 through the distribution by Falconbridge

Limited to its shareholders of approximately 49 per cent of Falconbridge Gold common shares.

The new company owns almost the entire gold exploration property position in the Timmins area previously held by Falconbridge Limited, including the Hoyle Mine property, a former gold producer. The two companies intend to collaborate in exploration for new gold properties in Canada on a joint venture basis. Falconbridge Limited is providing corporate management to the new company and supplies it with contract mining and custom ore processing services.

Falconbridge Gold owns the Hoyle Pond and Owl Creek gold mines, which produced 67,700 ounces of gold contained in concentrates in 1988, compared with 73,100 ounces in 1987. In 1988, Falconbridge Gold had earnings of less than $1 million compared with almost $7 million in 1987. The reduced earnings were largely due to the lower gold production and higher costs.

Owl Creek is an open pit mine which has been in production since 1981. In 1988, 189,300 tonnes of ore were produced, of which 100,000 tonnes were processed with the remainder stockpiled. Owl Creek ores were processed either through the Kidd Creek gold mill, or at other custom milling facilities in the Timmins area or fed directly to the Kidd Creek smelter as flux. Output of gold from Owl Creek was 16,400 ounces in 1988.

Proven and probable reserves remaining within the pit limit were 238,000 tonnes with a grade of 4.2 grams per tonne gold at the end of the year, and will be exhausted during 1989. However, an underground program is underway to explore the orebody at depth and to confirm some 480,000 tonnes of indicated mineralization immediately below the pit as ore reserves. Total projected expenditures are $3.5 million.

Hoyle Pond is an underground multiple narrow quartz-carbonate vein mine. During 1988, 97,200 tonnes of Hoyle Pond ore were milled in the Kidd Creek custom gold mill. Output of gold from Hoyle Pond was 51,300 ounces. Proven and probable reserves at December 31, 1988 were 383,000 tonnes at a grade of 16.4 grams of gold per tonne, sufficient for four years production. The delineation of ore reserves is an ongoing process requiring extensive development of the vein systems.

United Keno Hill Mines Limited

Shares issued: 3,753,417
Falconbridge Limited's ownership: 1,195,990 shares, or 31.9% at December 31, 1988

United Keno Hill Mines Limited owns several silver-lead mines and a milling facility at Elsa in the Keno-Galena Hill area of the central Yukon Territory.

In 1988, the company incurred a loss of $12.9 million compared with a loss of $4.8 million in 1987. The 1988 loss includes a provision of $2.6 million for placing the mining and milling facilities on a standby basis, and employee termination and relocation allowances.

Faced with the prospect of continuing low silver prices and operating losses, the company suspended production on January 6, 1989, resulting in the layoff of most of the company's 170 employees.

Revenues from metals sold totalled $17.6 million in 1988 compared with $15.9 million in 1987. Metals sold totalled 1.7 million ounces of silver and 2,700 tonnes of lead compared with 1.5 million ounces of silver and 1,400 tonnes of lead in 1987. Silver prices decreased from an average of U.S.$7.10 in 1987 to U.S.$6.66 in 1988.

A total of 91,800 tonnes of ore was milled in 1988 at an average grade of 689 grams of silver per tonne compared with 782 grams in 1987. The cost per ounce of silver produced, including marketing charges net of by-product

credits, averaged U.S.$9.08 in 1988 compared to U.S. $6.70 in 1987.

In spite of increased production, United Keno recorded an operating loss of $5.2 million due to a decrease in the price of silver and sharply increased unit operating costs.

At year end, the company had bank indebtedness of $4.4 million due to its operating losses and high capital expenditures. The working capital deficiency was $6.8 million. The company has filed with the Ontario Securities Commission a preliminary prospectus for a Rights Offering, the proceeds of which will be used to reduce the indebtedness of the company. Falconbridge Limited has agreed to exercise its Rights and will purchase additional United Keno common shares within prescribed limits.

Exploration expenditures totalled $3.0 million in 1988, raised primarily from the issue of flow-through shares.

At December 31, 1988, reserves in the Elsa area were 292,000 tonnes grading 958 grams of silver per tonne and 4.6 per cent lead. This represents an additional 119,000 tonnes of reserves compared with 1987. Significant potential exists to increase high grade reserves at Silver King, Husky Southwest and Bellekeno mines.

Falconbridge Investments (Zimbabwe) (Private) Limited

Falconbridge Limited's indirect ownership:
9,208 common shares,
or 100% at December 31, 1988

Falconbridge Investments (Zimbabwe) operates two underground gold mines in Zimbabwe. Revenues from operations in 1988 decreased to $12.7 million from $14.8 million in 1987. In 1988, earnings were $2.2 million, compared with earnings of $2.4 million the previous year.

Total production from both mines was 24,000 ounces in 1988 compared to 25,000 produced the year earlier.

At the Blanket Mine, 159,000 tonnes of ore were milled, producing 16,600 ounces of gold. Proven and probable reserves are 429,000 tonnes with a grade of 5.5 grams of gold per tonne, a substantial increase from the previous year. A 20 per cent increase in the rate of production and deepening of the main production shaft to the 630 metre level is planned during 1989.

At the Golden Kopje Mine, 79,300 tonnes of ore were milled, producing 7,400 ounces of gold. Encouraging results from deep underground drilling has resulted in a decision to sink a new underground production shaft from the 130 metre level to a depth of 250 metres below surface. Proven and probable ore reserves are 101,000 tonnes with a grade of 7.0 grams of gold per tonne.

An active surface exploration program is underway in the vicinity of the two mining operations and work continues at the Three Cheers prospect south of Harare.

Falconbridge had 780 employees in Zimbabwe at the end of 1988 and 781 at the end of 1987.

Analysis of Financial Condition

Consolidated cash and temporary investments of $6 million at December 31, 1988 reflected a decrease of $202 million from $208 million at December 31, 1987. Cash flow from operations was $536 million in 1988, a $455 million improvement over the $81 million generated in 1987. On January 27, 1988 the Corporation received gross proceeds of $143 million from the sale of units consisting of one common share and one-half common share purchase warrant. The number of units sold was 6,000,000 at $23.75 per unit. Each warrant entitles the holder to purchase one common share for $23.95 on or before July 27, 1989 (which if fully exercised by holders will result in the Corporation's share capital increasing by 2,250,000 shares and approximately $54 million). Long-term debt, including amounts due within one year, amounted to $816 million, reflecting repayments of $404 million; conversion of the $135 million 8.5% debentures; additions of $658 million (mainly because of the $536 million cost of buying back some of the Corporation's shares in the third quarter); and a $47 million reduction for exchange adjustments to U.S. currency debt, resulting in a debt to equity ratio of 41:59 at December 31, 1988. Long-term debt totalled $744 million at the end of 1987 when the ratio was 33:67. A special cash dividend of $413 million was paid to shareholders in the third quarter of 1988. Capital expenditures of $165 million in 1988 were $48 million higher than in 1987. At December 31, 1988, working capital amounted to $388 million, $210 million lower than a year earlier. The ratio of current assets to current liabilities of 2.1:1 at December 31, 1988, was lower than the 4.5:1 ratio at the end of 1987.

Expenditures in 1989 for capital, preproduction and development for the INO are expected to be approximately $97 million at the Sudbury operations and $24 million at the Norwegian refinery; and $85 million at the Kidd Creek Division, all of which the Corporation intends to finance from internal sources. On July 19, 1988 the Board of Directors approved the sinking of an exploration shaft at the Corporation's Lindsley property near Sudbury after extensive diamond drilling outlined four potentially mineable ore zones. The total cost of the shaft and underground program is expected to be $44 million, the program to be completed over four years. On December 22, 1988, as required, the Corporation submitted a report detailing a $38 million plan to meet the limit of 100,000 tonnes of sulphur dioxide emissions per year at its Sudbury smelter after December 31, 1993.

On February 21, 1989 the Corporation declared a cash dividend of one dollar per share on its outstanding common shares, payable on March 17, 1989.

Between July 1980 and February 1985, the Corporation was required to meet the cash deficiencies of Falcondo and provide for the shortfall between cash generated by Falcondo's operations and its operating and debt service requirements. Repayments are made by Falcondo when excess cash is generated. Falcondo repaid $101 million (advances of $49 million and accrued interest of $52 million) in 1988 (1987 and 1986, repaid advances of $1.7 million and $2.3 million and accrued interest of $2.3 million and $1.9 million, respectively). At the year end exchange rate, $144 million (advances of $85 million and accrued interest of $59 million) remain to be repaid.

In July 1988, covenants given by the Corporation relating to certain restrictions placed on the amount and nature of borrowing that the Corporation may undertake were waived for all time by the new holder of the Falcondo related Loma Series D guaranteed sinking fund notes.

At December 31, 1988, the Corporation had available long-term lines of credit and operating lines of credit as shown in note 5(h) of the notes to consolidated financial statements.

Analysis of Results of Operations

The details of the 1988, 1987 and 1986 contributions to consolidated earnings (loss) are shown in the Ten-Year Review.

For the year ended December 31, 1988 Falconbridge had consolidated earnings of $341 million, or $4.57 per share compared with $30 million, or 42 cents per share, for 1987. Revenues for 1988 rose to $2.1 billion from $1.3 billion for 1987. In 1986 Falconbridge had a loss of $16 million and revenues of $1.1 billion.

With an extraordinary gain of $43 million from the sale of Falconbridge's 49% interest in Western Platinum the earnings for 1987 were $73 million or $1.03 per share. In 1986 an extraordinary gain of $86 million from the sales of subsidiary and associated companies brought the year's earnings to $70 million or $1.21 per share.

The higher 1988 earnings, compared with 1987, reflect record high average base metal selling prices and increased sales volumes of zinc, zinc concentrate and nickel; partially offset by the impact of a less favourable exchange rate on U.S. dollar sales revenues, higher operating costs, increased exploration expenditures, lower copper sales and taxes of $130 million on Falcondo's ferronickel shipments under a new agreement in the Dominican Republic. The 1987 costs include a $20 million premium paid to purchase, for cancellation, one half of the Corporation's convertible debentures. The improvement in 1987 earnings compared with 1986 was largely the result of the rapid rise in nickel and copper prices during the second half of the year, particularly in the fourth quarter and generally higher metal sales volumes. To hedge the effect of price changes Falconbridge may sell forward a portion of its annual output of metals at fixed prices for various periods. These sales are made to both end users and as futures contracts on terminal metal markets. Realized selling prices reflect these forward sales.

The Integrated Nickel Operations operating income contribution of $283 million for 1988 compares with $65 million in 1987. The $218 million increased income mainly reflected record high average base metal prices and increased sales volumes. These were partially offset by a less favourable U.S. dollar exchange rate and higher operating costs.

Following a 10-day strike at the Corporation's Sudbury operations in August 1988, a collective agreement was reached with Local 598 of the Mine, Mill and Smelter Workers' Union which is to be in effect until August 21, 1991.

The 1987 operating income of the INO was $65 million compared with $16 million in 1986. The $49 million increase

in income mainly reflected higher U.S. dollar metal prices, except cobalt, increased precious metal revenues and an increased volume of nickel and copper sales. The higher U.S. dollar selling prices were partially reduced by a less favourable exchange rate. The increased precious metal revenues resulted from a reduction of in-process inventories.

The Kidd Creek Division's $224 million income contribution for 1988 compares with $100 million in 1987. The $124 million increase mainly reflected higher metal prices, except silver, and increased volumes of zinc and zinc concentrate sales. These were partially offset by a less favourable U.S. dollar exchange rate and a lower volume of copper sales.

The 1987 operating income of Kidd Creek was $100 million compared with $58 million in 1986. The $42 million increase mainly resulted from higher U.S. dollar metal selling prices, partially offset by a lower exchange rate, and an increased volume of copper sales. Operating costs were higher than in 1986. Production was lower and purchases to meet contractual obligations had an adverse impact on gross margins.

Corporate costs, net, before investment income, in 1988 were $128 million compared with $124 million in 1987. The 1988 costs include unfavourable exchange adjustments for the revaluation of U.S. dollar net assets to reflect a stronger Canadian dollar and an $11 million increase in exploration expenditures. A $20 million premium paid to purchase, for cancellation, one-half of the Corporation's convertible debentures was included in 1987.

Corporate costs, net, before investment income, in 1987 were $124 million compared with $122 million in 1986. The 1987 costs include a $20 million premium paid to buy back convertible debentures, the $19 million amortization of cross currency interest rate swap costs and reflect lower interest expense because of debt reductions and lower interest rates. In 1987 a $9 million exchange gain was recorded on repayment of U.S. debt, compared with a loss of $2 million in 1986. Exploration expenditures and stock option costs were higher in 1987.

The $98 million earnings contribution from Falcondo in 1988 compares with $14 million in 1987. The $84 million increased contribution mainly reflected a record high ferronickel selling price. On May 26, 1988 Falcondo signed an agreement with the Government of the Dominican Republic which, among other things, changed the tax provisions of the original contracts governing its operations. Under the original contracts, because of either current or accumulated losses, Falcondo was not taxable in 1987 or 1986. As a result of the amending agreement, taxes of $130 million were expensed in the consolidated accounts in 1988. The agreement between Falcondo and the Government of the Dominican Republic ended a dispute which began in November 1987 when a Presidential decree imposed an export tax on ferronickel. While negotiations were underway, ferronickel shipments were restricted to 10 million pounds from December 11, 1987 to May 1988 and production was suspended on April 19, 1988. Operations and shipments returned to normal shortly after the signing of the agreement.

The Corporation's share of Falcondo's earnings was $14 million in 1987, compared with a $1 million loss in 1986. The $15 million improvement reflected a higher ferronickel selling price, an increased sales volume and lower unit cost (because of greater production).

Falconbridge Gold's 1988 earnings contribution of $588,000 was $6 million lower than in 1987, mainly because of lower gold production and higher operating costs.

Falconbridge Gold's 1987 earnings contribution of $7 million was $1 million higher than in 1986. The increase mainly resulted from a higher gold price, partially offset by increased operating costs and higher exploration expenditures.

The 1988 earnings of the Indusmin Division were $7 million, compared with $6 million in 1987. The higher 1988 earnings mainly reflected increased sales and gross margins at the Fahramet specialty steel casting division.

The 1987 earnings of the Indusmin Division were $6 million, compared with $7 million in 1986. Higher sales volumes and cost reduction at the Quebec Silica operations were more than offset by low margins for steel castings in the first three quarters of 1987 (due to competitive pricing), lower exchange on the U.S. dollar and higher production costs at other mineral operations. A gain from the sale of a distribution yard was included in 1986 earnings.

The Corporation's share of the losses of United Keno was $4 million in 1988, compared with $2 million in 1987. The higher 1988 loss mainly results from a low selling price for silver, higher production costs and the expensing of shutdown and termination costs. On January 6, 1989 United Keno suspended all production at its mining and milling operations. The property will remain on a standby basis pending an improvement in silver prices.

The Corporation's share of the losses of United Keno was $2 million in 1987, compared with $1 million in 1986. Lower production, reflecting lower ore grades and higher unit production costs were partially offset by the impact of a higher selling price for silver.

See note 15 of the notes to consolidated financial statements for certain segmented data. Further discussions and analyses of results of operations of the Corporation and its operating subsidiaries are also contained throughout the annual report.

The Impact of Inflation

The major effect of inflation during 1988, 1987 and 1986 was on operating costs, particularly labour and energy.

Because metal prices are set in international markets, they do not necessarily reflect the effect of inflation. Falconbridge cannot offset the effects of inflation on its various cost components by increasing prices. In 1986 prices realized for some metals declined in both nominal and real terms; however, in the last half of 1987 nickel, ferronickel and copper prices increased.

Increases in unit operating and other costs have been generally lower than average inflation rates due to strict cost control measures.

Recognizing that inflation affects all business activities, appropriate allowances are made in Falconbridge's planning and financial forecasting.

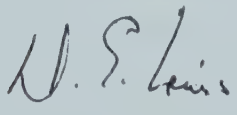
ACCOUNTING RESPONSIBILITIES, PROCEDURES AND POLICIES

The Board of Directors which, among other things, is responsible for the consolidated financial statements of the Corporation, delegates to management the responsibility for the preparation of the statements. Responsibility for their review is that of the Audit Committee. Each year the shareholders appoint independent auditors to examine and report directly to them on the financial statements.

In preparing financial statements great care is taken to use the appropriate generally accepted accounting principles and estimates considered necessary by management to present fairly and consistently the consolidated financial position and the results of operations. The significant accounting policies followed by Falconbridge are summarized on pages 27 and 28.

The accounting systems employed by Falconbridge include appropriate controls, checks and balances to provide reasonable assurance that Falconbridge's assets are safeguarded from loss or unauthorized use as well as facilitating the preparation of comprehensive, timely and accurate financial information. The internal auditors, who are employed by the Corporation as part of management, play an integral part in the effective operation of the systems of internal accounting control. There are limits inherent in all systems based on the recognition that the cost of such systems should not exceed the benefits to be derived. Falconbridge believes its systems provide the appropriate balance in this respect.

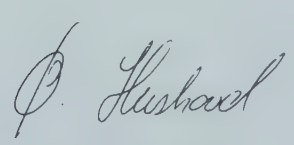
The Corporation's Audit Committee is appointed by the Board of Directors annually and is comprised of three non-management directors. The Committee meets with management and with the independent auditors (who have free access to the Audit Committee) to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements for issuance to the shareholders.



D. E. Lewis, Q.C.
Chairman of the
Audit Committee



W. James
Chairman of the Board,
President and
Chief Executive Officer



Ø. Hushovd
Vice-President, Controller and
Chief Financial Officer

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
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Royal Trust Tower
Toronto-Dominion Centre
Toronto, Canada M5K 1J7
Telephone: (416) 864-1234
Telex: 06-23191
Telecopier: (416) 864-1174

To the Shareholders of
Falconbridge Limited:

We have examined the statements of consolidated financial position of Falconbridge Limited as at December 31, 1988 and 1987 and the consolidated statements of operations, shareholders' equity and changes in consolidated financial position for each of the years in the three-year period ended December 31, 1988. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Falconbridge Limited as at December 31, 1988 and 1987 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1988 in accordance with accounting principles generally accepted in Canada applied, except for the change in 1987 in accounting for pension costs and obligations as explained in note 1(c) to the consolidated financial statements, on a consistent basis.

Clarkson Gordon

Chartered Accountants

Toronto, Canada
January 25, 1989
(except as to note 16(c)
which is as of
February 21, 1989).

Summary of Accounting Policies

The consolidated financial statements of Falconbridge Limited have been prepared in accordance with accounting principles generally accepted in Canada, consistently applied except for the 1987 change in accounting for pension costs and obligations, as described in note 1(c). In these statements, references to the Corporation mean only Falconbridge Limited, the parent company, and references to Falconbridge include the Corporation, its consolidated subsidiaries and significantly influenced companies. The principal accounting policies followed by Falconbridge are summarized hereunder. Differences between these policies and those that would be applied under United States generally accepted accounting principles are described in note 14.

A. Basis of consolidation

Falconbridge generally consolidates the financial statements of subsidiary companies and accounts on an equity basis for its investment in United Keno Hill Mines Limited (United Keno) (31.9% owned) and its minority interest in certain other investments. Falconbridge Investments (Zimbabwe) (Private) Limited (Falconbridge Investments) (100% owned), which is subject to significant restrictions in transferring funds, is accounted for on the cost basis.

Differences between the interest in the book value of the net assets of consolidated subsidiaries and the carrying value of the investments are allocated to the subsidiary's assets and liabilities based on their fair values at the dates of acquisition. For consolidated operating subsidiaries, the differences are depreciated, depleted or amortized in accordance with Falconbridge's accounting policy for the related asset.

B. Translation of foreign currencies

Foreign currency transactions and balances, and the financial statements of integrated foreign operations, are translated into Canadian dollars using the temporal method. Under this method monetary items are translated at the rate of exchange at the balance sheet date. Non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the weighted average of exchange rates prevailing during the year, except for depreciation and amortization which are translated at the same exchange rates as the assets to which they relate. Exchange gains and losses are included in income in the current year, except when the gain or loss relates to a monetary item with a fixed or ascertainable original life extending beyond the end of the following fiscal year. In this case the gain or loss is deferred and amortized to income on a straight-line basis over the period the related monetary item is outstanding.

Financial statements of self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date while revenue and expense items (including depreciation and amortization) are translated at the weighted average of exchange rates prevailing during the year. Exchange gains and losses from the translation of such financial statements are deferred and disclosed as a separate component of shareholders' equity.

C. Revenue recognition

Revenues from the sale of refined metals, concentrates, ferronickel, industrial minerals and metal castings are recorded in the accounts when the rights and obligations of ownership pass to the buyer.

D. Valuation of inventories

Metals inventories are valued at the lower of cost, determined on a "first-in, first-out" basis, or net realizable value except for inventories of the Kidd Creek Division which are valued at the lower of average cost or net realizable value. Cost includes direct labour and material costs as well as administrative expenses at the operating properties, but excludes development and preproduction expenditures, depreciation and depletion. Supplies inventories are valued at the lower of the average cost of acquisition or replacement cost.

E. Property, plant and equipment

Property, plant and equipment and related capitalized development and preproduction expenditures are recorded at cost. Repairs and maintenance expenditures are charged to operations; major betterments and replacements are capitalized.

The Corporation generally depreciates plant and equipment on a straight-line basis over the lesser of their useful service lives or the lives of the producing mines to which they relate, limited to a maximum of 25 years. At the Kidd Creek Division, mine facilities are depreciated over the estimated lives of the mines based on the unit of production basis; reduction and refining facilities are depreciated over 25 years using the straight-line basis. Generally the subsidiary companies calculate depreciation on a straight-line basis at rates varying from 5% to 25%.

Depletion of resource properties is provided over the lesser of the estimated lives of the resources recoverable from the properties, on the unit of production basis, or 25 years.

Development and preproduction expenditures are capitalized until the commencement of commercial production. These, together with certain subsequent development expenditures, which are also capitalized, are amortized over periods not exceeding the lives of the producing mines and properties, limited to a maximum of 25 years.

F. Exploration

Exploration costs incurred to the date of establishing that a property has reserves which have the potential of being economically recoverable are charged against earnings. Further costs are generally capitalized and then amortized as appropriate under policy E.

G. Retirement plans

Effective January 1, 1987 Falconbridge prospectively adopted the new recommendations of The Canadian Institute of Chartered Accountants in accounting for pension costs and obligations. On this basis the pension expense (credit) recorded for Falconbridge's defined benefit plans is the net of management's best estimate of the cost of benefits provided, the interest cost of projected benefits, return on plan assets and amortization of experience gains or losses and other plan surpluses or deficits. Pension fund assets are valued at current market values. Plan surpluses or deficits, experience gains or losses and the cost of pension plan improvements are amortized, on a straight-line basis, over the expected average remaining service life of the employee group. Funding is subject to applicable government regulations. In prior years, expenses were recorded in the amount of required funding. Under its defined contribution retirement savings program the Corporation makes guaranteed payments based on employee earnings and partially matches employee contributions, to a defined maximum. Employees may receive profit sharing credits based on earnings.

H. Income and mining taxes

Falconbridge follows the deferral method of applying the tax allocation basis of accounting for income and mining taxes. Under this method, timing differences between the period when income or expenses are reported for tax purposes and the period when they are recorded in the accounts result in deferred taxes.

Where appropriate, income and withholding taxes are provided on the portion of any interest in consolidated foreign subsidiaries' undistributed net income since acquisition which it is reasonable to assume will be transferred in a taxable distribution.

I. Flow-through shares

The Corporation has entered into agreements to issue flow-through shares as this term is defined in the Income Tax Act. Pursuant to these agreements the Corporation must incur Canadian exploration expenses in an amount equal to the consideration paid for the shares and renounce these expenses to the shareholder. The portion of the issue price attributed to the tax benefits renounced to the shareholder is recorded as a reduction of income and mining taxes. The balance of the issue price is included as common share capital in shareholders' equity. Legal and associated fees are charged to retained earnings.

J. Interest costs

Interest costs incurred prior to the commencement of commercial production for projects which are specifically financed by debt are capitalized. Interest costs incurred after the commencement of commercial production are expensed, as are interest costs not identified with specific projects.

CONSOLIDATED FINANCIAL POSITION

(In thousands of Canadian dollars)

	December 31, 1988	1987
ASSETS		
Current:		
Cash and temporary investments, at cost which approximates market value	$ 5,905	$ 207,545
Accounts and metals settlements receivable (note 7(c))	379,574	286,574
Inventories of metals (note 2)	271,755	195,754
Inventories of supplies	83,810	78,644
	741,044	768,517
Property, plant and equipment (note 3)	1,834,728	1,823,763
Other:		
Investments in associated and other companies (note 4)	1,389	16,587
Deferred expenses and other assets (note 12)	30,592	30,889
	31,981	47,476
	$2,607,753	$2,639,756
LIABILITES AND SHAREHOLDERS' EQUITY		
Current:		
Accounts payable and accrued charges	$ 159,971	$ 107,404
Salaries and wages payable	34,896	22,030
Income and other taxes payable	103,334	15,518
Long-term debt maturing within one year	54,350	25,047
	352,551	169,999
Long-term debt (note 5)	761,337	718,587
Deferred exchange gain, net of amortization	38,430	27,608
Deferred income and mining taxes (note 6)	259,893	177,318
Minority interest	18,891	8,184
Commitments and contingencies (note 7)		
Shareholders' equity	1,176,651	1,538,060
	$2,607,753	$2,639,756

(See notes to consolidated financial statements)

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands of Canadian dollars, except per share data)

	Year ended December 31,		
	1988	1987	1986
Revenues	$2,123,837	$1,339,825	$1,145,480
Operating expenses:			
Costs of metal and other product sales	1,137,589	911,977	842,079
Selling, general and administrative	105,564	92,168	76,046
Development and preproduction	30,889	26,083	26,855
Depreciation and depletion	113,180	105,377	104,965
	1,387,222	1,135,605	1,049,945
Operating income	736,615	204,220	95,535
Interest income and other income and expense, net (note 9)	12,968	28,394	45,140
	749,583	232,614	140,675
Interest on long-term debt and debt expenses	86,415	113,778	127,773
Exploration	38,480	24,683	27,114
Research and process development	7,993	6,736	4,974
	132,888	145,197	159,861
Earnings (loss) before taxes and other items	616,695	87,417	(19,186)
Income and mining taxes (note 6)	275,592	51,049	(4,385)
Earnings (loss) before minority interest and extraordinary items	341,103	36,368	(14,801)
Minority shareholders' interest in earnings of subsidiary companies, net		6,671	717
Earnings (loss) before extraordinary items	341,103	29,697	(15,518)
Extraordinary items (note 10)		43,423	85,787
Earnings for the year	$ 341,103	$ 73,120	$ 70,269
Earnings (loss) per common share (note 11):			
Before extraordinary items	$4.57	$0.42	$(0.27)
For the year	4.57	1.03	1.21

(See notes to consolidated financial statements)

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars)

	Year ended December 31,					
	1988		1987		1986	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares issued (note 8)						
Balance at beginning of year	74,372,572	$ 940,797	60,894,478	$ 692,853	41,894,275	$ 318,512
Public sale for cash	6,000,000	142,500	8,000,000	168,000	6,600,000	136,950
Conversion of debentures	6,167,744	135,382				
Purchased from Placer Dome and cancelled	(12,531,244)	(176,195)				
Issued pursuant to employee share ownership plans	259,957	6,425	224,633	5,497	101,090	2,108
Issued pursuant to flow-through share agreements	183,368	4,200	270,076	4,952	283,995	5,214
Warrants exercised			4,983,385	65,282	800	10
Issued as partial consideration for the acquisition of Kidd Creek					10,473,568	204,235
Private sale for cash					1,540,750	25,596
Contributed surplus		(5,691)		4,213		228
Balance at end of year	74,452,397	1,047,418	74,372,572	940,797	60,894,478	692,853
Common shares to be issued (note 8(c))						
Balance at beginning of year	93,625	2,110	18,195	383	156,830	2,541
Shares to be issued pursuant to flow-through share agreements	89,743	2,090	345,506	6,679	145,360	3,056
Shares issued	(183,368)	(4,200)	(270,076)	(4,952)	(283,995)	(5,214)
Balance at end of year			93,625	2,110	18,195	383
Retained earnings (note 8)						
Balance at beginning of year		574,776		505,585		437,734
Earnings		341,103		73,120		70,269
		915,879		578,705		508,003
Cash dividend paid on common shares ($4.75 per share)		(412,775)				
Dividend in kind on common shares (in the form of shares of Falconbridge Gold Corporation, at book value of $0.1173 per share)		(7,648)				
Difference between the cost and book value of shares purchased from Placer Dome, and buy-back expenses, net of taxes		(146,763)				
Common share issue expenses, net of taxes		(2,739)		(3,929)		(2,418)
Balance at end of year		345,954		574,776		505,585
Cumulative translation adjustment						
Balance at beginning of year		20,377		25,154		30,144
Translation adjustments		(9,562)		(4,777)		(4,990)
Balance at end of year		10,815		20,377		25,154
Common shares held by subsidiary companies						
Balance at beginning of year					(143,620)	(2,746)
Shares (acquired) disposed (note 8(b))	(9,242,070)	(227,536)			143,620	2,746
Balance at end of year	(9,242,070)	(227,536)				
Total shareholders' equity		$1,176,651		$1,538,060		$1,223,975

(See notes to consolidated financial statements)

CHANGES IN CONSOLIDATED FINANCIAL POSITION

(In thousands of Canadian dollars)

	Year ended December 31,		
	1988	1987	1986
Cash provided by (used in) operating activities:			
Earnings (loss) before extraordinary items	$341,103	$ 29,697	$ (15,518)
Charges (credits) not affecting cash in the current period —			
Depreciation and depletion	113,180	105,377	104,965
Deferred income and mining taxes	84,281	39,552	(11,469)
Development and preproduction written off	30,889	26,083	26,855
Currency translation adjustments	(36,789)	(24,194)	(84)
Amortization of cross currency interest rate swap cost	17,287	18,837	
Other items	7,198	10,323	2,023
Cash provided by operating activities before working capital changes	557,149	205,675	106,772
(Increase) decrease in working capital items —			
Accounts and metal settlements receivable	(93,000)	(102,061)	34,601
Inventories of metals and supplies	(81,167)	(15,331)	(8,871)
Current liabilities	153,249	(6,800)	(23,857)
Cash provided by operating activities	536,231	81,483	108,645
Cash provided by (used in) financing activities:			
Issue of units, common shares and exercise of warrants for cash, net	143,202	250,060	167,662
Additions to long-term debt	657,798		
Long-term debt repaid	(404,450)	(321,889)	(154,523)
Buy back of the Corporation's common shares (note 8(b))	(536,491)		
Dividend payment to common shareholders (note 8(b))	(412,775)		
Termination of cross currency interest rate swap		(24,671)	
Cash provided by (used in) financing activities	(552,716)	(96,500)	13,139
Cash provided by (used in) investing activities:			
Property, plant and equipment expenditures	(104,685)	(85,702)	(106,658)
Development and preproduction expenditures	(60,712)	(32,055)	(45,133)
Acquisition of Kidd Creek			(99,956)
Proceeds from the sale of subsidiary and associated companies		102,615	154,492
Proceeds on disposal of fixed assets	821	2,489	7,168
Increase in investments in subsidiary and associated companies		(47,313)	(45,721)
Decrease (increase) in other assets	(20,579)	630	(14,680)
Cash used in investing activities	(185,155)	(59,336)	(150,488)
Decrease in cash during the year	(201,640)	(74,353)	(28,704)
Cash and temporary investments, beginning of year	207,545	281,898	310,602
Cash and temporary investments, end of year	$ 5,905	$207,545	$281,898

(See notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of Canadian dollars, except per share data and where otherwise noted)

1. Accounting policies, changes in long-term investment, accounting change and reclassification

(a) Accounting policies

The principal accounting policies followed by Falconbridge are described on pages 27 and 28.

(b) Changes in long-term investment

On December 23, 1987, Falconbridge purchased from Armco Inc. (Armco) its 17.5% equity interest in Falconbridge Dominicana, C. por A. (Falcondo) along with notes issued by Falcondo to Armco. The total consideration included payment of $47.3 million and agreement by Falconbridge to indemnify Armco from any future funding requirements of Falcondo. The purchase increased the Corporation's interest in Falcondo from 67.7% to 85.3%.

Because losses applicable to the minority interest in Falcondo exceed the minority interest in the common shares of Falcondo, the excess (and any further losses) applicable to the minority interest has been (will be) allocated only to the Corporation. Falcondo's earnings will be allocated entirely to the Corporation until such previously absorbed losses are recovered, at which time the Corporation will reflect its 85.3% equity interest. Falcondo's consolidated shareholders' deficit to December 31, 1988 amounted to $13 million.

(c) Accounting change

Effective January 1, 1987, Falconbridge adopted the new recommendations of The Canadian Institute of Chartered Accountants in accounting for pension costs and obligations. This change, which was applied prospectively, increased the consolidated earnings, after taxes, for 1987 by $3.8 million or $0.05 per share. (See note 12).

(d) Reclassification of prior years' financial statement items

Certain comparative figures in the consolidated financial statements and notes thereto have been reclassified to conform with the 1988 presentation.

2. Inventories of metals

	1988		1987	
	Metals in process	Finished metals	Metals in process	Finished metals
Derived from:				
Corporation's Sudbury ore	$35,780	$ 31,877	$38,111	$ 28,548
Kidd Creek Division ore	42,662	31,127	38,011	16,126
Subsidiaries*	9,434	38,887	7,830	27,639
Other sources	8,348	73,640	10,995	28,494
	$96,224	$175,531	$94,947	$100,807
Total inventories of metals	$271,755		$195,754	

*The 1988 finished metals inventory includes $20.6 million for taxes on ferronickel shipments from the Dominican Republic. These taxes will be expensed (included with income and mining taxes) when the ferronickel is sold to customers.

3. Property, plant and equipment

	Cost	Accumulated depreciation and depletion	1988 Net book value	1987 Net book value
Plant and equipment:				
Mines, mining plants and ancillary mining assets	$ 876,283	$412,493	$ 463,790	$ 471,636
Smelters	463,709	92,091	371,618	375,445
Refineries	525,243	164,008	361,235	362,264
Other	62,481	37,421	25,060	24,796
	1,927,716	706,013	1,221,703	1,234,141
Land and properties	249,124	49,756	199,368	202,700
	$2,176,840	$755,769	1,421,071	1,436,841
Development and preproduction expenditures			413,657	386,922
			$1,834,728	$1,823,763

Property, plant and equipment in 1988 and 1987 include exploration, development and other expenditures of $43 million relating to New Quebec Raglan Mines Limited (a 73.8% owned subsidiary) and its wholly owned subsidiary company, Société Minière Raglan du Québec Ltée, incurred in the development of the latter company's Cape Smith-Wakeham Bay properties. These costs have been capitalized with the intention that they will be amortized by charges against income from future mining operations. Profits commensurate with the risks of operating in such a remote northern location must be indicated before development to production.

Since 1985 Falcondo has not required financial support from Falconbridge. It is management's opinion that, given the continuation of the current favourable operating conditions, the net carrying value of Falcondo's property, plant, equipment, preproduction and other deferred charges will be recovered. The carrying value of Falconbridge's investment in Falcondo at December 31, 1988 was $134 million (1987 — $122 million).

4. Investments in associated and other companies

The December 31, 1988 market value of investments in associated and other companies, which includes the Corporation's investment in United Keno and Falconbridge Investments, was $9.3 million (1987 — $20.3 million). The decrease in carrying and market values from 1987 is mainly attributable to McIntyre Mines Limited (McIntyre) which became a consolidated subsidiary in 1988 (see note 8(b)). The Corporation's investment in United Keno is carried at a nominal value (1987 — $3.3 million); the corresponding market value is $7.8 million (1987 — $10.6 million); Falconbridge Investments (Zimbabwe) is carried at a nominal value and has no quoted market value. A net loss of $3.2 million was reflected in earnings for the year from these investments (1987 — $454,000, loss; 1986 — $3.9 million earnings). See note 16(a).

5. Long-term debt

	1988	1987
(i) Falconbridge Limited		
7.75% Sinking fund debentures maturing February 1991 (a)	$ 20,703	$ 30,246
Bank loans —		
Due December 31, 1991 (U.S. $135,000,000; 1987 — U.S. $130,000,000) (b)	160,987	169,207
Syndicated loan due in installments to December 31, 1996 (U.S. $80,000,000; 1987 — U.S. $232,650,000) (c)	95,400	302,919
Syndicated loan due in installments to July 31, 1995 (d)	450,600	
Silver contract due 1993 (U.S. $52,400,000) (e)	62,487	68,204
8.5% Convertible debentures due 2006 (f)		135,382
	790,177	705,958
Less long-term debt maturing within one year	45,060	15,395
	745,117	690,563
(ii) Falconbridge Dominicana, C. por A.		
Due to Loma Corporation (Loma) 8.50% Series D guaranteed sinking fund notes, due in semi-annual payments of U.S. $3,400,000 from 1989 to and including 1991 (U.S. $20,400,000; 1987 — U.S. $27,200,000) (g)	24,327	35,404
Capital leases, interest 10%, due August 1989	1,183	2,272
	25,510	37,676
Less long-term debt maturing within one year	9,290	9,652
	16,220	28,024
Consolidated total	$761,337	$718,587

(a) The Corporation has fulfilled requirements to make sinking fund payments sufficient to retire $1.3 million of the principal amount of the debentures in each year to and including 1990.

(b) This bank loan reflects borrowings under the Corporation's revolving line of credit of Cdn. $180 million, or the U.S. dollar equivalent, with various borrowing options. Interest is based on the current market rate for bankers' acceptances plus an applicable stamping fee (currently ½ of 1%) for Canadian or U.S. dollar borrowings and was payable at 9.72% at December 31, 1988, averaging 8.17% in 1988 (1987 — 7.89%).

(c) The U.S. $232.65 million syndicated loan was repaid on March 7, 1988. The new syndicated variable term loan of U.S. $80 million, or Canadian dollar equivalent, with various borrowing options, bears interest at the current market rate for bankers' acceptances plus an applicable stamping fee (currently ½ of 1%) for Canadian or U.S. dollar borrowings and was payable at 9.17% at December 31, 1988, averaging 8.18% in 1988 (1987 — 7.45%).

(d) This syndicated variable term loan of Cdn. $450.6 million, or U.S. dollar equivalent, with various borrowing options, bears interest at the current market rate for bankers' acceptances plus an applicable stamping fee (currently ½ of 1%) for Canadian or U.S. dollar borrowings and was payable at 11.51% at December 31, 1988, averaging 10.50% in 1988.

(e) Under the terms of a contract whereby Polysar Energy & Chemical Corporation advanced U.S. $52.4 million, due in 1993, it obtained an option to acquire silver up to the amount of the advance during the period to March 31, 1989 at prices which vary from U.S. $13.91 to U.S. $14.80 per troy ounce; or to require payment of the cash equivalent of the market value of the silver on the date the option is exercised. The delivery of silver or the payment of cash can be made over a six-month period from the date of exercise. The advances bear interest at the rate of 7.625% to March 31, 1989 and thereafter to maturity at the rate of 11.125%.

(f) These debentures were converted into 6,167,744 common shares of the Corporation on August 15, 1988 at a conversion price of $21.95 per share (see note 8 (b)).

(g) The Corporation has guaranteed repayment of the Loma Series D guaranteed sinking fund notes which are secured by a first mortgage on Falcondo's assets, which have a net carrying value of $168 million at December 31, 1988. The loans from Loma Corporation are covered by specific risk insurance issued by the Overseas Private Investment Corporation.
In July 1988, covenants given by the Corporation relating to certain restrictions placed on the amount and nature of borrowing that the Corporation may undertake were waived for all time by the new holder of the Falcondo related Loma Series D guaranteed sinking fund notes.

(h) In addition to the lines of credit detailed above, the Corporation has other lines of credit aggregating $244 million which may be drawn in either Canadian or U.S. dollars and a U.S. $20 million operating line of credit under which the Corporation may sell U.S. dollar accounts receivable at rates prevailing at the time of sale. Falconbridge Gold Corporation (Falconbridge Gold) has available a loan facility of up to $22.5 million and/or the U.S. dollar equivalent and/or the gold equivalent to a maximum of 45,000 ounces.

(i) Maturities for the next five years are (millions):

1989 — $ 54	1992 — $ 45
1990 — $ 53	1993 — $108
1991 — $235	

6. Income and mining taxes

(a) Consolidated income and mining tax expense (credit) consists of:

	1988	1987	1986
Current taxes —			
Federal and provincial income taxes	$ 29,163	$ 1,500	$ 1,900
Provincial mining taxes	30,421	8,800	4,200
Foreign taxes	131,727	1,197	984
	191,311	11,497	7,084
Deferred taxes —			
Federal and provincial income taxes	56,977	33,573	(14,963)
Provincial mining taxes	27,304	5,772	3,058
Foreign taxes		207	436
	84,281	39,552	(11,469)
Total taxes	$275,592	$51,049	$ (4,385)

(b) The provision for consolidated deferred tax expense (credit) results from timing differences between the period when income or expenses are reported for tax purposes and the period when they are recorded in the accounts. The sources and tax effects of these differences are:

	1988	1987	1986
Depreciation claimed for tax purposes in excess of (lower than) amounts expensed in the accounts, net	$16,908	$17,578	$ (2,897)
Exploration, preproduction and mine development costs claimed for tax purposes in excess of (lower than) amounts expensed in the accounts, net	68,344	19,792	(45,912)
Losses carried forward	4,731		33,147
Other	(5,702)	2,182	4,193
	$84,281	$39,552	$(11,469)

(c) The difference between the amount of the reported consolidated provision for income and mining taxes and the amount computed by multiplying the earnings (loss) before taxes by the Corporation's applicable tax rates is reconciled as follows:

	1988	1987	1986
Taxes computed using the Corporation's tax rates*	$ 413,186	$ 62,066	$(12,586)
Adjust for —			
Non-claimable expenses	70,498	105,641	65,292
Resource, depletion and processing allowances	(111,955)	(53,533)	(30,192)
Adjustments because of differences in tax rates	(22,696)	(15,665)	(6,088)
Unrecorded tax debit			809
Non-taxable income	(73,441)	(40,570)	(21,620)
Utilization of Falcondo's losses		(6,890)	
Income and mining tax expense (credit)	$ 275,592	$ 51,049	$ (4,385)
*Federal and provincial income taxes	47%	51%	53%
Provincial mining taxes	20%	20%	12.6%

(d) On May 26, 1988 Falcondo signed an agreement with the Government of the Dominican Republic which, among other things, changed the tax provisions of the original contracts governing its operations. Under the original contracts, because of either current or accumulated losses, Falcondo was not taxable in 1987 or 1986. As a result of the new agreement, taxes of $130 million were expensed in the consolidated accounts in 1988 (1987 and 1986 — nil).

Under the amending agreement, taxable income, in U.S. dollars, is computed as the difference between deemed revenues and deemed costs. Deemed revenues are determined by applying a formula price, based on published prices, to the pounds of nickel exported. Deemed costs are determined using a base cost adjusted for certain changes in the price of crude oil and specified inflation indices. The agreement also provides that the tax payable will not be less than U.S. $0.17 per pound of nickel contained in exported ferronickel. Previously, income taxes were computed on earnings from operations subject to certain limitations with respect to the amount of depreciation and amortization which could be deducted for tax purposes.

7. Commitments and contingencies

(a) At December 31, 1988, there were contractual commitments outstanding of approximately $22 million in connection with capital expenditure programs.

(b) The following are under continuing study and discussion with government officials:

(i) The Corporation has received an exemption by the Ontario government, until December 31, 1989, from a requirement to refine in Canada ores mined from certain properties of the Corporation in Ontario, such exemption being limited to the quantity of nickel-copper matte capable of producing not more than 100,000,000 pounds of refined nickel per year;

(ii) Application has been made to the Ontario government to renew the exemption, which expired on December 31, 1988, from a requirement to refine in Canada concentrate produced at certain properties of the Kidd Creek Division in Ontario, such exemption being limited to 150,000 tonnes of zinc concentrate or zinc calcine and 180,000 tonnes of copper concentrate; and

(iii) The Ontario government has issued an Order-in-Council requiring the Corporation to further reduce sulphur dioxide emissions at its Sudbury smelter from the present allowable 154,395 tonnes per year (423 tonnes per day) to 100,000 tonnes per year (274 tonnes per day) effective January 1, 1994. The Corporation submitted a report on December 22, 1988 as required, detailing a $38 million plan to meet the proposed limit. The plan outlines a further program of studies and research required to achieve further reductions by 1998.

(c) As a result of discounting accounts receivable with recourse, the Corporation has a contingent liability of U.S. $45 million at December 31, 1988.

(d) See notes 12 and 16(a) which detail other commitments and contingencies.

8. Capital

(a) Common shares and common share purchase warrants

On January 27, 1988 the Corporation received gross proceeds of $142.5 million from the sale of common shares and common share purchase warrants, offered in units consisting of one common share and one-half common share purchase warrant. The number of units sold was 6,000,000 at $23.75 per unit (the price being allocated at $23.25 per common share and $0.50 for the one-half common share purchase warrant). The $2.7 million cost, net of taxes, of the issue, were charged to retained earnings. Each whole warrant entitles the holder to purchase one common share for $24.69 (formerly $30.00) on or before July 27, 1989 (see note 16(b)). Placer Dome Inc. (Placer Dome) purchased 1,500,000 of the 6,000,000 units.

(b) Buy-back of the Corporation's common shares

In accordance with a June 30, 1988 agreement Placer Dome converted all of the Falconbridge convertible debentures into Falconbridge shares and sold these shares, together with the shares it owned directly, to Falconbridge at a price of $25.75 per share on an "ex dividend" basis with respect to the $4.75 per share special cash dividend. Placer Dome also sold Falconbridge its Falconbridge warrants for $4.00 per warrant. Falconbridge made a cash offer of $64.00 per share for all McIntyre shares on an "ex dividend" basis. As a result of this offer Falconbridge holds 92.3% of the outstanding McIntyre shares. Falconbridge also proposed a transaction whereby the remaining McIntyre shareholders may elect to receive in exchange for each McIntyre share either $64.00 cash or approximately 2.52 common shares of Falconbridge (see note 16(b)).

Cost of buying back the Corporation's common shares (millions):

Purchase of shares and warrants from Placer Dome	$325.6
Purchase of McIntyre shares	205.6
Dividend received from McIntyre	(2.1)
Payment to Placer Dome of amount owed by McIntyre	3.4
Other costs	4.0
	$536.5

The cash dividend of $4.75 per share paid by Falconbridge on August 22, 1988 in accordance with the Agreement resulted in a reduction of the exercise price of Falconbridge's common share purchase warrants from $30.00 to $24.69. The exercise price of the warrants will be further reduced as a result of the payment of the special non-cash dividend on Falconbridge shares in the form of common shares of Falconbridge Gold (see note 16(b)).

(c) Flow-through shares

The Corporation issued common shares under flow-through share agreements for gross proceeds of $3.6 million (1987 — $19.5 million; 1986 — $7.0 million) to finance exploration programs in Canada. In 1988, 183,368 shares (1987 — 270,076; 1986 — 283,995 shares) were issued.

(d) Employee share ownership plans

(i) Employee stock option plan

Subsequent to the establishment of the Corporation's stock option plan the Corporation has reserved 2,500,000 common shares for the purpose of granting options to purchase shares of the Corporation to eligible employees, as defined, of the Corporation, its subsidiaries or associated companies. The price for which the shares may be optioned shall not be less than the closing bid price for the common shares on the trading day immediately preceding the granting of the option less a discount of 10%. The discount only applies to the options granted in 1981 and 1983.

Options are exercisable over a period of 10 years from the date granted and are earned at the rate of 25% of the shares optioned times the number of periods of 12 months which have elapsed since the date the option was granted less the aggregate number of options already exercised or surrendered. The optionee may also be given the right, at the time of exercise, to surrender the options in return for receipt of cash or shares or a combination thereof, equal to the excess of the fair market value of the shares over the option price thereof.

The following table summarizes the activity in the stock option plan:

Options granted — Year	1988	1987	1986	1983	1981
— Number originally granted	17,500	610,000	197,500	507,500	610,000
— Price*	$17.08	$16.56	$14.61	$11.33	$9.41
Options outstanding at December 31, 1987		610,000	180,250	353,375	133,500
Activity during 1988 —					
Granted	17,500				
Exercised		3,375	13,200	115,375	74,500
Surrendered for cash			8,125	132,000	16,500
Terminated		17,000	7,250		
Options outstanding at December 31, 1988	17,500	589,625	151,675	106,000	42,500

* Reduced to these prices effective August 16, 1988 because of the special dividend paid by the Corporation.

(ii) Incentive, service awards and profitability bonus plans

Since 1984, 362,500 common shares of the Corporation have been conditionally allotted and reserved for issue under incentive, service awards and profitability bonus plans for employees at Sudbury and in the Kidd Creek Division. In 1988, 53,507 (1987 — 69,008; 1986 — 42,465) shares were issued under these plans.

In 1988, employee share ownership plans expense totalled $5.5 million (1987 — $6.9 million; 1986 — ($2.0 million)).

9. Interest income and other income and expense, net

Interest and other income and expense, net, includes foreign exchange losses of $2.0 million (1987 — $2.3 million, loss; 1986 — $6.2 million, loss).

10. Extraordinary items

The 1987 extraordinary item (net of taxes of $3.1 million) represents the gain on the sale of Falconbridge's 49% interest in Western Platinum Limited.

The 1986 extraordinary items (net of taxes of $42.5 million) represent gains on the sales of the Corporation's 56.7% interest in Kiena Gold Mines Limited (Kiena) ($42.0 million, net); 19.2% interest in Giant Yellowknife Mines Limited (Giant Yellowknife) and 36.7% interest in Akaitcho Yellowknife Gold Mines Limited (Akaitcho) ($7.8 million, net); and 49.6% interest in Corporation Falconbridge Copper (CFC) ($36.0 million, net).

11. Earnings (loss) per common share

Earnings (loss) per common share are based on the weighted average number of 74,720,143 common shares outstanding during the year (1987 — 70,698,552 shares; 1986 — 58,131,168 shares), excluding shares held by subsidiary companies.

Inclusion in the earnings (loss) per share computation of shares subject to issue under employee share ownership plans, convertible debentures and warrants (see note 8) results in fully diluted earnings per share of $4.38 (1987 and 1986 — antidilutive before extraordinary items; $1.02 and $1.12 per share, respectively, after extraordinary items).

12. Retirement plans

Falconbridge maintains defined benefit retirement plans providing retirement, death and termination benefits for certain salaried and hourly rated employees. Pension benefits are either calculated based upon length of service and final average earnings or a specified amount per year of service. Funding and plan assets (which consist principally of cash, equity securities and fixed income securities) for the significant defined benefit plans are governed by the Ontario Pension Benefits Act. Pension benefits provided for certain employees through group annuity contracts are fully funded. The Kidd Creek Division makes monthly contributions on behalf of all its employees under a defined contribution retirement savings program.

The following table reflects the components of pension expense:

	1988	1987
Defined contribution plans	$ 8,144	$ 4,072
Defined benefit plans —		
Service cost — benefits earned during the year	6,786	6,011
Interest cost on projected benefit obligation	19,614	19,746
Return on assets — actual	(29,892)	(13,868)
— experience gain (loss)	7,191	(9,212)
Amortization of the January 1 plan surplus, net	(1,967)	(2,771)
Amortization of year's net experience (gain) loss	(2)	803
Pension expense for the year	$ 9,874	$ 4,781

The funded status and differences between amounts expensed and amounts funded of Falconbridge's defined benefit plans are as follows:

	1988		1987	
	Plans where assets exceed accumulated benefits	Plans where accumulated benefits exceed assets	Plans where assets exceed accumulated benefits	Plans where accumulated benefits exceed assets
Plan assets at market value	$219,902	$ 96,016	$192,821	$ 88,678
Projected benefits based on:				
Employment service to date and present pay levels —				
Vested	122,227	104,814	120,680	99,899
Nonvested	1,330	1,049	1,817	1,657
Additional amount related to compensation increases	33,928	185	22,368	
Projected benefit obligations	157,485	106,048	144,865	101,556
Plan assets in excess of (less than) projected benefit obligations	62,417	(10,032)	47,956	(12,878)
Unamortized beginning of year (surplus) deficit, net	(35,989)	9,586	(49,133)	10,368
Unamortized current years net experience loss (gain)	(7,436)	7,026	4,985	5,410
	18,992	6,580	3,808	2,900
Difference between amounts expensed and amounts funded (included with deferred expenses and other assets in the consolidated statement of financial position)		$ 25,572		$ 6,708

The projected benefit obligations were determined using an assumed discount rate of 8% (1987 — 8.5% for 10 years and 7% thereafter) and assumed rates of compensation increase of 5.5% per annum. The assumed long-term rate of return on plan assets is 8% (1987 — 8.5% for 10 years and 7% thereafter).

The amount by which plan assets are in excess of, or less than, projected benefit obligations will be credited, or charged to, pension expense over periods varying from 8 to 18 years.

13. Transactions with related companies

Because of securities owned directly by Placer Dome and indirectly through McIntyre, Placer Dome may have been considered to exercise control or direction over approximately 19.4% of the outstanding common shares of the Corporation prior to the transaction detailed in note 8(b). At December 31, 1988, McIntyre was 92.3% owned by the Corporation and the owner beneficially and of record of 9,242,070 (12.4%) of the outstanding common shares of the Corporation (see note 16(b)).

14. United States accounting principles

Reconciliation of earnings (loss) determined in accordance with generally accepted accounting principles in Canada (Canadian GAAP) to amounts determined under accounting principles which are generally accepted in the United States (U.S. GAAP):

	1988	1987	1986
Earnings (loss) for the year before extraordinary items, under Canadian GAAP	$341,103	$ 29,697	$ (15,518)
Adjustments to conform with U.S. GAAP:			
Adjustments relating to foreign currency translation, net of taxes (a)	8,617	21,680	6,923
Adjustments relating to capitalization of interest less amortization of capitalized interest, net of taxes (b)	650	(36)	25
Gains on sale of investments, net of taxes (c)		43,423	85,787
Loss (gain) on redemption of debentures, net of taxes (d)	(431)	20,025	(602)
Earnings before extraordinary item in accordance with U.S. GAAP	349,939	114,789	76,615
Gain (loss) on redemption of debentures, net of taxes (d)	431	(20,025)	602
Earnings for the year in accordance with U.S. GAAP	$350,370	$ 94,764	$ 77,217
Earnings per common share in accordance with U.S. GAAP (e):			
Primary — Before extraordinary item	$ 4.66	$ 1.62	$ 1.27
— Earnings for the year	4.67	1.34	1.28
Fully diluted — For the year	4.64	1.30	1.22

(a) Under Canadian GAAP Falconbridge defers gains and losses on translation of monetary items where the foreign currency denominated item has a fixed or ascertainable original life which extends beyond one year. Such gains or losses are amortized over the remainder of the life of the item. Under U.S. GAAP exchange gains and losses as a result of translation are included in income for the current period.

(b) Consistent with the Canadian mining industry's practice of capitalizing all costs incurred during the preproduction stage of a project, Falconbridge capitalizes interest costs incurred prior to the commencement of commercial production for projects which are specifically financed by debt. Interest costs incurred after the commencement of commercial production are expensed.

U.S. GAAP requires the capitalization of interest costs as part of the historical cost of acquiring certain assets whether or not the assets are specifically financed by debt.

Capitalized interest costs are amortized on the same basis as the related assets.

(c) U.S. GAAP requires that these items be included in earnings before extraordinary item. See note 10 for details.

(d) U.S. GAAP requires that these items be reflected as extraordinary items.

(e) Under U.S. GAAP the treasury stock method has been used to compute the earnings per share. The primary earnings per share under U.S. GAAP are based on 75,021,595 shares outstanding (1987 — 71,000,317 shares; 1986 — 60,142,687 shares), excluding shares held by subsidiary companies. The fully diluted earnings per share are based on 75,131,730 shares outstanding (1987 — 77,232,296 shares; 1986 — 72,478,222 shares) excluding shares held by subsidiary companies.

(f) A new United States accounting standard for income taxes, for adoption by 1990, as set forth in Statement of Financial Accounting Standard No. 96 (SFAS 96), differs from existing Canadian and previous United States practices. The impact of the adoption of SFAS 96 on U.S. GAAP operating results and financial position has not been determined. The effect of applying SFAS 96 will be reported in 1990 U.S. GAAP earnings.

15. Segmented data (millions of dollars)

Falconbridge operates in one industry segment — mining, processing and marketing mineral products.

(a) Identifiable assets by geographic location are as follows:

	Canada	Dominican Republic	Norway	Other*	Total
1988	$2,218	$ 90	$80	$220	$2,608
1987	2,316	119	84	121	2,640
1986	2,325	128	71	164	2,688

*Mainly marketing subsidiaries' accounts receivable and inventories of metals:
— U.S., 1988 — $88; 1987 — $49; 1986 — $48
— Bermuda, 1988 — $70; 1987 — $37; 1986 — $31
— Japan, 1988 — $41; 1987 — $28; 1986 — $25

(b) Consolidated sales revenues

(i) By geographic location of customers

	1988		1987		1986	
	Amount	%	Amount	%	Amount	%
Europe	$ 785	37	$ 492	37	$ 425	37
U.S.	790	37	509	38	376	33
Others	266	13	106	8	79	7
Total foreign*	1,841	87	1,107	83	880	77
Canada	283	13	233	17	265	23
World total*	$2,124	100	$1,340	100	$1,145	100
*Includes sales by Canadian operations to foreign customers	$1,067		$ 722		$ 591	

(ii) By product category

	1988		1987		1986	
	Amount	%	Amount	%	Amount	%
Nickel	$ 666	31	$ 293	22	$ 246	21
Copper	519	24	420	31	325	28
Ferronickel	380	18	181	13	134	12
Zinc	200	10	133	10	144	13
Zinc concentrate	90	4	36	3	20	2
Cobalt	33	2	28	2	39	4
Gold	42	2	54	4	73	6
Silver	52	2	66	5	48	4
Industrial minerals	54	3	52	4	46	4
Others	88	4	77	6	70	6
Total	$2,124	100	$1,340	100	$1,145	100

(c) Other segmented information.

	INO	Kidd Creek Division	Falconbridge Dominicana	Indusmin Division	Corporate and other	Consolidation adjustments	Total
Ownership	(100%) (i)	(100%)	(85.3%) (ii)	(100%)	(100%)	(ii)	
1988							
Revenues	$902	$731	$427	$79	$38	$(53)	$2,124
Operating income (loss)	283	225	277	13	(28)	(33)	737
Depreciation, depletion and amortization	52	74	12	4	4	(2)	144
Property, plant and equipment, net	515	1,166	74	30	60	(10)	1,835
Capital expenditures	90	43	8	7	17		165
1987							
Revenues	$469	$571	$177	$74	$52	$(3)	$1,340
Operating income (loss)	65	100	35	11	(10)	3	204
Depreciation, depletion and amortization	41	70	13	4	3		131
Property, plant and equipment, net	465	1,200	85	26	59	(11)	1,824
Capital expenditures	68	31	11	6	2		118
1986							
Revenues	$401	$452	$122	$67	$94	$9	$1,145
Operating income (loss)	16	58	11	11	(4)	4	96
Depreciation, depletion and amortization	37	70	12	3	10		132
Property, plant and equipment, net	442	1,246	94	24	58	5	1,869
Capital expenditures	104	27	7	4	10		152
Principal base of operations	Canada	Canada	Dominican Republic	Canada	Canada		

(i) Included under the caption "Integrated Nickel Operations" (INO) are the accounts of the Corporation and all of its wholly owned subsidiaries engaged in the integrated operations of mining, milling, smelting, refining and marketing of metals mainly derived from Sudbury ores; and the custom feed business.

(ii) Adjustments are made on consolidation because the ferronickel produced by Falcondo is purchased and marketed by the Corporation. The operating income of Falcondo includes profits on all ferronickel sold to the Corporation whereas consolidated operating income excludes the profits relating to inventories of ferronickel held by the Corporation at December 31, for subsequent resale to customers. Adjustments have also been made to amortize the difference between Falconbridge's additional interest in the book value of the net assets of Falcondo over the cost of additional acquisitions and to eliminate other inter-company transactions.

16. Subsequent events

(a) United Keno has filed, with the Ontario Securities Commission, a preliminary prospectus for a Rights Offering, the proceeds of which will be used to reduce its indebtedness. The Corporation has agreed to exercise its Rights and will purchase additional United Keno common shares within prescribed limits.

On January 6, 1989 United Keno announced that all production at its Elsa mining and milling operations would be suspended immediately. The suspension of operations resulted in the layoff of most of United Keno's 170 employees. The property will be maintained on a standby basis pending an improvement in silver prices. Costs of placing and maintaining the properties on a standby basis together with employee termination and relocation allowances, totalling $2.6 million, were expensed in United Keno's 1988 accounts.

(b) The arrangement described in note 8(b) became effective on January 24, 1989 to give Falconbridge 100% of the outstanding McIntyre shares. In 1989 the Corporation has issued or reserved for issuance 647,360 of its common shares, with a market value of approximately $18.5 million, and paid approximately $1.6 million to those McIntyre shareholders who elected to receive cash, to acquire the 7.7% of McIntyre that it previously did not own.

On January 5, 1989 the Corporation announced that the subscription price of its outstanding common share purchase warrants was reduced from $24.69 to $23.95 effective from January 25, 1989. This adjustment resulted from the payment of a special dividend, in the form of common shares of Falconbridge Gold, to the Corporation's shareholders on January 31, 1989 (see note 8(b)).

(c) On February 21, 1989 the Corporation declared a cash dividend of one dollar per share on its outstanding common shares, payable on March 17, 1989 to shareholders of record at the close of business on March 10, 1989.

SUMMARY OF 1988 AND 1987 CONSOLIDATED RESULTS BY QUARTERS

(unaudited — 000s omitted except per share data and tonnes)

	Three month period ended				1988 (note 1)
	March 31	June 30	Sept. 30	Dec. 31	Year
Metal sales:					
Integrated Nickel Operations (note 3) —					
Nickel (tonnes)	15,215	11,632	10,270	15,057	52,174
Copper (tonnes)	12,366	12,737	12,327	11,992	49,422
Kidd Creek (note 3) —					
Zinc — Metal (tonnes)	36,898	34,745	29,003	34,536	135,182
— Concentrate (tonnes)	18,351	76,207	50,633	53,927	199,118
Copper (tonnes)	32,921	32,114	29,620	27,674	122,329
Silver (000s ounces)	1,809	1,730	1,435	1,063	6,037
Falconbridge Limited —					
Ferronickel (tonnes)	3,177	7,356	8,564	10,257	29,354
Falconbridge Gold Corporation —					
Gold (000s ounces)	16	8	18	16	58
Earnings (loss):					
Revenues	$425,932	$514,493	$525,189	$658,223	$2,123,837
Interest income and other income and expense, net	9,054	(2,292)	8,607	(2,401)	12,968
	434,986	512,201	533,796	655,822	2,136,805
Costs other than the undermentioned	295,020	292,736	309,855	345,542	1,243,153
Depreciation, depletion, development and preproduction	35,378	37,294	36,252	35,145	144,069
Exploration, research and process development	8,421	9,759	9,253	19,040	46,473
Interest and debt expenses	30,662	10,693	20,933	24,127	86,415
Income and mining taxes (credit)	30,283	66,723	70,551	108,035	275,592
Minority interest in earnings of subsidiary companies, net					
	399,764	417,205	446,844	531,889	1,795,702
Earnings (loss) for the period before extraordinary item	35,222	94,996	86,952	123,933	341,103
Gain on the sale of Western Platinum Limited					
Earnings (loss) for the period	$ 35,222	$ 94,996	$ 86,952	$123,933	$ 341,103
Weighted average number of shares outstanding	78,674	80,531	73,285	65,890	74,720
Earnings (loss) per share (note 4):					
Before extraordinary item	$ 0.45	$ 1.18	$ 1.19	$ 1.88	$ 4.57
For the period	0.45	1.18	1.19	1.88	4.57
Earnings (loss) contributions:					
Principal operations:					
Operating income (loss) —					
Integrated Nickel Operations	$ 51,093	$ 87,568	$ 44,842	$ 99,008	$ 282,511
Kidd Creek Division	37,119	52,924	46,315	87,356	223,714
Total	88,212	140,492	91,157	186,364	506,225
Corporate and other expenditures, net	(32,920)	(28,875)	(23,650)	(42,658)	(128,103)
Income and mining taxes, credit (expense)	(21,548)	(40,907)	(24,875)	(51,829)	(139,159)
Contribution (loss) from principal operations	33,744	70,710	42,632	91,877	238,963
Falconbridge Dominicana, C. por A.	459	20,809	41,536	34,854	97,658
Falconbridge Gold Corporation	55	882	1,218	(1,567)	588
Indusmin Division	1,323	1,998	1,776	2,012	7,109
United Keno Hill Mines Limited	(684)	(679)	(637)	(2,127)	(4,127)
Other investment income (expense)	325	1,276	427	(1,116)	912
Earnings (loss) for the period before extraordinary item	$ 35,222	$ 94,996	$ 86,952	$123,933	$ 341,103
Market price and dividend information about the Corporation's shares:					
Sales prices for common shares —					
High	$24.75	$27.75	$28.25	$28.13	$28.25
Low	17.88	21.50	19.50	21.00	17.88
Dividends (note 5)	Nil	Nil	4.75	0.12	4.87

				1987
		Three month period ended		(note 2)
March 31	June 30	Sept. 30	Dec. 31	Year
11,221	11,897	10,794	12,284	46,196
11,759	10,895	10,545	13,103	46,302
30,297	31,069	29,496	26,296	117,158
10,118	58,684	20,425	26,871	116,098
25,544	34,046	34,319	36,311	130,220
1,138	1,613	2,026	1,949	6,726
7,481	8,386	6,884	8,388	31,139
17	13	18	23	71
$257,571	$319,047	$329,305	$433,902	$1,339,825
(3,554)	16,714	5,805	9,429	28,394
254,017	335,761	335,110	443,331	1,368,219
209,304	253,573	243,999	297,269	1,004,145
33,617	34,226	30,246	33,371	131,460
5,095	6,405	8,229	11,690	31,419
29,152	48,080	18,028	18,518	113,778
(7,751)	10,080	13,458	35,262	51,049
17	590	2,012	4,052	6,671
269,434	352,954	315,972	400,162	1,338,522
(15,417)	(17,193)	19,138	43,169	29,697
43,423				43,423
$ 28,006	$ (17,193)	$ 19,138	$ 43,169	$ 73,120
70,699	70,699	70,699	70,699	70,699
$ (0.22)	$ (0.24)	$ 0.27	$ 0.61	$ 0.42
0.39	(0.24)	0.27	0.61	1.03
$ 2,576	$ (285)	$ 17,044	$ 45,506	$ 64,841
8,203	24,378	33,942	33,859	100,382
10,779	24,093	50,986	79,365	165,223
(41,136)	(36,949)	(30,203)	(15,620)	(123,908)
10,507	(7,386)	(9,524)	(32,402)	(38,805)
(19,850)	(20,242)	11,259	31,343	2,510
82	1,281	4,264	8,539	14,166
1,773	1,048	2,145	1,674	6,640
760	1,415	1,463	1,923	5,561
(275)	(309)	(158)	(952)	(1,694)
2,093	(386)	165	642	2,514
$ (15,417)	$ (17,193)	$ 19,138	$ 43,169	$ 29,697
$20.88	$23.75	$31.25	$30.75	$31.25
16.75	18.88	21.13	16.63	16.63
Nil	Nil	Nil	Nil	Nil

Notes:

1. The 1988 results generally reflect the escalation in base metal prices during the year and increased sales volumes of zinc metal and concentrate and refined nickel; partially offset by a less favourable U.S. dollar exchange rate; higher operating costs; increased exploration expenditures; lower copper sales; and taxes on Falcondo's ferronickel shipments under a new tax agreement.
2. The 1987 results generally reflect the rapid rise in nickel and copper prices during the second half of the year and particularly in the fourth quarter, as well as generally higher metal sales volumes.
3. Includes metals purchased for resale.
4. Based on the net weighted average number of shares outstanding. Quarterly earnings per share do not cross add for the year because of differing average numbers of shares outstanding in each quarter.
5. A dividend of $1.00 per common share was declared on February 21, 1989, payable on March 17, 1989 to shareholders of record as at March 10, 1989. Dividends are declared in Canadian dollars. However, shareholders with addresses in the United States are paid the equivalent amount in United States dollars. Cash dividends paid to non-residents of Canada are subject to Canadian withholding tax at the rate of 25%. Under the terms of the Tax Convention, shareholders resident in the United States are subject to withholding tax of 15%.

TEN-YEAR REVIEW (note 1)
(unaudited)

		1988	1987
Revenues and earnings (loss) ($000s except per share data)	Revenues	2,123,837	1,339,825
	Earnings (loss) before extraordinary items	341,103	29,697
	Per common share (note 2)	4.57	0.42
	Earnings (loss) for the year	341,103	73,120
	Per common share (note 2)	4.57	1.03
Earnings (loss) contributions — after consolidation adjustments, before extraordinary items ($000s)	Principal Operations:		
	Operating income (loss) —		
	Integrated Nickel Operations	282,511	64,841
	Kidd Creek Division (note 6)	223,714	100,382
	Total	506,225	165,223
	Corporate and other expenditures, net	(128,103)	(123,908)
	Income and mining taxes, credit (expense)	(139,159)	(38,805)
	Contribution (loss) from principal operations	238,963	2,510
	Falconbridge Dominicana, C. por A.	97,658	14,166
	Falconbridge Gold Corporation (note 6)	588	6,640
	Indusmin Division	7,109	5,561
	United Keno Hill Mines Limited	(4,127)	(1,694)
	Discontinued operations (note 3)		
	Other investment income (expense)	912	2,514
	Earnings (loss) before extraordinary items	341,103	29,697
Financial position ($000s)	Total assets	2,607,753	2,639,756
	Working capital	388,493	598,518
	Property, plant and equipment, net	1,834,728	1,823,763
	Long-term debt	761,337	718,587
Shareholders' data	Shareholders' equity (000s)	$1,176,651	1,538,060
	Amount per common share (note 2)	$ 18.04	20.68
	Dividends per common share (note 2)	$ 4.87	
	Number of common shares issued at end of year (notes 2 and 4) (000s)	74,452	74,373
	Number of registered common shareholders	5,417	5,393
	Toronto Stock Exchange quotes — High	$ 28.25	31.25
	(TSE) (note 2) — Low	$ 17.88	16.63
	— Close	$ 28.00	24.00
	Volume of shares traded on TSE (000s) (note 2)	105,455	84,888
	Volume of warrants traded on TSE (000s)	14,536	460
Exploration, research and process development ($000s)	Exploration	38,480	24,683
	Research and process development	7,993	6,736
Cash flow and capital expenditures ($000s)	Cash provided by (used in) — operating activities	536,231	81,483
	— financing activities	(552,716)	(96,500)
	— investing activities	(185,155)	(59,336)
	Increase (decrease) in cash during the year	(201,640)	(74,353)
	Expenditures on property, plant, equipment, development and preproduction —		
	Integrated Nickel Operations	90,233	67,900
	Kidd Creek Division	42,678	30,581
	Consolidated total	165,397	117,757
Metal sales (tonnes, except silver)	Integrated Nickel Operations (note 5) — Nickel	52,174	46,196
	— Copper	49,422	46,302
	Falconbridge Limited — Nickel in ferronickel	29,354	31,139
	Kidd Creek Division (note 5) — Zinc — Metal	135,182	117,158
	— Concentrate	199,118	116,098
	— Copper — Metal	122,329	130,220
	— Silver (000s ounces)	6,037	6,726
Ore reserves (000s tonnes)	Falconbridge Limited — Sudbury	48,000	46,300
	— Kidd Creek Division	48,900	50,600
	Falconbridge Dominicana, C. por A.	23,900	24,000
Equivalent financial information in accordance with U.S. GAAP ($000s except per share data)	Earnings before extraordinary item	349,939	114,789
	— per common share	4.66	1.62
	Earnings for the year	350,370	94,764
	— per common share	4.67	1.34
	— fully diluted	4.64	1.30
	Total assets	2,635,316	2,666,383
	Property, plant and equipment, net	1,862,283	1,850,390
	Deferred exchange gain, net of amortization	Nil	Nil
	Deferred income and mining taxes	286,348	200,624
	Retained earnings	409,025	628,580

Notes:

1. The 1988, 1987 and 1986 data contained herein include the accounts and results of operations of the wholly owned Kidd Creek group of companies which were acquired in 1986, and which, on January 1, 1988, amalgamated with, and became the Kidd Creek Division of, the Corporation. The 1988, 1987 and 1986 consolidated results exclude the accounts of Kiena which was sold in 1986. The operating results of CFC are consolidated while those of Giant Yellowknife and Akaitcho are reflected on an equity basis, up to August 1986, when the Corporation sold its shareholdings in these companies. Certain comparative data have been reclassified to conform with the presentation adopted in 1988.
2. Per share amounts and the number of shares outstanding and traded have been adjusted to reflect the division of the common shares on a five-for-one basis in 1985.

1986	1985	1984	1983	1982	1981	1980	1979
1,145,480	890,247	733,312	615,387	483,126	712,952	757,815	789,418
(15,518)	38,543	28,694	(31,409)	(81,279)	1,443	74,980	105,163
(0.27)	0.95	0.80	(0.93)	(3.26)	0.06	2.75	3.99
70,269	38,543	80,186	(16,593)	(81,279)	(3,679)	112,680	111,294
1.21	0.95	2.23	(0.49)	(3.26)	(0.15)	4.26	4.24
15,826	62,795	79,994	914	(27,412)	90,821	135,342	110,709
58,408							
74,234	62,795	79,994	914	(27,412)	90,821	135,342	110,709
(121,511)	(10,527)	(34,933)	(20,972)	(53,658)	(53,529)	(27,719)	(22,942)
14,878	(13,894)	(15,380)	8,238	45,474	(11,835)	(50,981)	(30,347)
(32,399)	38,374	29,681	(11,820)	(35,596)	25,457	56,642	57,420
(1,027)	(7,148)	(7,241)	(27,071)	(44,071)	(21,316)	(5,378)	3,496
5,635							
6,749	3,086	4,102	3,533	882	2,037	2,398	2,714
(750)	(1,564)	(3,289)	721	(2,615)	(1,488)	3,718	10,035
1,259	4,163	2,391	2,961	1,122	(1,249)	18,714	30,726
5,015	1,632	3,050	267	(1,001)	(1,998)	(1,114)	772
(15,518)	38,543	28,694	(31,409)	(81,279)	1,443	74,980	105,163
2,687,506	1,351,378	1,165,550	1,262,579	1,165,235	1,335,255	1,231,341	1,129,110
559,217	534,105	414,661	472,168	407,035	540,053	418,400	424,845
1,869,451	641,357	605,557	557,119	559,571	566,116	524,581	486,707
1,203,445	283,970	283,842	486,135	502,262	490,295	315,311	315,094
1,223,975	786,185	635,994	532,285	445,040	523,271	534,954	519,199
20.10	18.76	17.58	15.24	17.84	20.95	21.42	20.79
					0.30	0.70	0.60
60,894	41,894	36,335	35,140	25,124	25,124	25,124	25,124
5,140	4,579	4,314	4,762	5,169	5,542	5,908	7,362
26.00	21.50	17.60	17.60	14.75	23.20	32.20	18.35
16.13	15.50	11.15	9.48	6.50	11.40	15.80	6.40
16.88	20.50	15.90	14.20	9.70	14.80	20.50	18.30
35,725	15,210	9,695	15,440	6,640	6,180	14,100	10,750
2,525	1,634	1,012	1,913				
27,114	34,423	23,928	18,965	28,806	37,964	28,284	14,297
4,974	4,606	3,240	3,394	5,769	11,105	6,636	3,960
108,645	120,229	95,247	5,359				
13,139	98,304	(205,761)	115,807				
(150,488)	(96,963)	16,035	(33,773)				
(28,704)	121,570	(94,479)	87,393				
103,366	69,073	36,737	21,129	28,559	62,747	57,935	33,469
27,196							
151,791	93,129	94,936	40,640	40,280	96,637	83,984	54,813
41,321	54,600	39,421	38,743	26,181	29,769	27,112	40,665
41,593	32,766	36,740	25,710	23,352	26,949	26,015	20,291
23,522	23,673	23,737	20,438	8,313	19,857	15,679	21,604
135,021							
75,087							
113,836							
6,027							
52,200	57,700	63,000	66,800	70,100	71,800	71,300	68,700
57,900							
27,000	27,900	37,500	39,600	41,700	57,900	59,900	62,300
76,615	36,537	75,650					
1.27	0.86	2.08					
77,217	37,747	87,681					
1.28	0.89	2.41					
1.22	0.89	2.41					
2,714,210	1,367,632	1,190,612					
1,896,155	668,010	632,512					
Nil	Nil	Nil					
144,561	121,396	103,826					
537,745	462,946	427,926					

3. Includes CFC, Kiena and other subsidiary and associated companies and the Wesfrob Mining Division which were sold or ceased operations.
4. Includes shares held by consolidated subsidiaries during the years 1979 to 1985, inclusive, and 1988.
5. Includes metals refined and sold as agent and metals purchased for resale.
6. Falconbridge Gold Corporation (FGC) was formed in December 1987. Its Owl Creek and Hoyle Pond Mines and mine assets were acquired from Kidd Creek. The earnings contribution prior to the formation of FGC represent the results of Kidd Creek's gold operations.

Board Of Directors

*William James
Chairman of the Board, President
and Chief Executive Officer

§ H. T. Berry
Consulting Metallurgist

*†‡°§ Marsh A. Cooper
President, M. A. Cooper
Consultants Inc.

*‡°§ R. E. Harrison
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Bernard F. Isautier
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† A. T. Lambert, O.C.
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† D. E. Lewis, Q.C.
Barrister and Solicitor

G. P. Mitchell
Consulting Geologist

*° Victor A. Rice
Chairman and Chief Executive Officer,
Varity Corporation

Eivind Wigstol
Managing Director, Falconbridge
Nikkelverk Aktieselskap

* Member of the Executive Committee
† Member of the Audit Committee
‡ Member of the Nominating Committee
° Member of the Human Resource Committee
§ Member of the Special Committee

Officers And Corporate Management

William James
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and Chief Executive Officer

John F. Gillies
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Michael J. Knuckey
Vice-President Exploration

Franklin G. T. Pickard
Vice-President Metallurgy
and Engineering

Michael P. Amsden
Vice-President and General Manager
Kidd Creek Division

George B. Reed
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Sudbury Operations

Michael C. Hughes
Vice-President Marketing and Sales
Kidd Creek Division

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and Chief Financial Officer

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Vice-President and Treasurer

Brian A. Ferguson
Vice-President Mining

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D. Robert Bevan
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Brian A. Ferguson,
Chairman, President and
Chief Executive Officer
Peter Blakey, Mine Manager

United Keno Hill Mines Limited
P.O. Box 40
Commerce Court West
Toronto, Ontario M5L 1B4
Telephone: (416) 863-7000
Telex: 065-24211
Rapifax: (416) 364-8986
J. Chris Cowan, President and
Chief Executive Officer

Falconbridge Investments (Zimbabwe) (Private) Limited
P.O. Box 8233, Causeway
Harare, Zimbabwe
Telephone: (011) 263-4-706889
Telex: 22447 FALZIM ZW
Rapifax: (011) 263-4-702248
Phillip E. Griffiths, Managing Director

Exploration Offices

Suite 202, 856 Homer St.
Vancouver, B.C. V6B 2W2
Tel. (604) 688-5476
Richard L. Moore, Regional Manager

3074 Portage Avenue, Suite 100
Winnipeg, Manitoba R3K 0Y2
Tel. (204) 888-9860
Ray Band, Senior Geologist

P.O. Box 40
Falconbridge, Ontario P0M 1S0
Tel. (705) 693-2761
C. David A. Comba, Regional Manager

P.O. Box 1140
571 Moneta Ave.
Timmins, Ontario P4N 7H9
Tel. (705) 267-1188
Harvey F. Keats, Regional Manager

8, rue Doyon, C. P. 1056
Rouyn-Noranda, Quebec J9X 5C8
Tel. (819) 797-1562
Jean-Pierre Cloutier, Regional Manager

P.O. Box 398
124 Water Street
Windsor, Nova Scotia B0N 2T0
Tel. (902) 798-2218
D. Jamie Robertson, Senior Geologist

Marketing And Sales Subsidiaries

Falconbridge Europe S.A.
Chaussee de la Hulpe, 150 - Bte 15
B-1170 Brussels, Belgium
Telephone: (02) 673-9950
Telex: 046-23280
Rapifax: (02) 660-6482
Cliff Carson, President

Falconbridge International Limited
Barclay's International Building
Church St., 2nd Floor
P.O. Box HM 2262
Hamilton 5, Bermuda
Telephone: (809) 292-4700
Telex: 290-3479
Rapifax: (809) 292-5441
Jan A. Vermeulen, President

Falconbridge (Japan) Ltd.
Daiichi Seimei Sohgokan Building
No. 7-1, 3-Chome Kyobashi
Chuo-ku
Tokyo 104, Japan
Telephone: (03) 562-3971
Telex: 02-522416
Rapifax: (03) 562-0566
Hajime Amano, President

Falconbridge U.S. Incorporated
Twin Towers - Suite 245
4955 Steubenville Pike
Pittsburgh, Pennsylvania 15205-9642
U.S.A.
Telephone: (412) 787-0220
Telex: 866-507
Rapifax: (412) 787-0287
Robert W. Bain, President

Falconbridge Limited's 1988 Report on Form 10-K is filed with the United States Securities and Exchange Commission and is included in the Corporation's 1989 Annual Information Form filed with provincial and territorial regulatory authorities in Canada. The Annual Information Form will be made available upon written request to the Secretary of the Corporation.

La version francaise du rapport annuel sera fournie sur demande.

Auditors

Clarkson Gordon

Transfer Agents and Registrars

Montreal Trust Company of Canada
Toronto, Montreal,
Vancouver and Calgary

Registrar and Transfer Company,
New York, N.Y. and
Cranford, N.J., U.S.A.

Stock Exchanges

The shares of Falconbridge Limited are listed on the Toronto, Montreal and Vancouver stock exchanges. Share symbol: FL

Falconbridge Limited shares are also quoted on NASDAQ in the United States.

Printed in Canada

Key Events In The 60-Year History Of Falconbridge

1928	Thayer Lindsley*, president of Ventures Limited, purchases mining claims in the township of Falconbridge, Ontario, near Sudbury. Falconbridge Nickel Mines Limited is incorporated on August 28. Reserves are estimated at 1.24 million tonnes grading 2.97% nickel and 0.97% copper.
1929	Falconbridge purchases refinery in Kristiansand South, Norway in order to acquire rights to the Hybinette refining process.
1949	First production from McKim Mine.
1952	The U.S. government, in return for assured nickel supplies, provides Falconbridge with guaranteed prices and financial support for construction and mine development. Agreement runs for 10 years.
1954	First production from East, Hardy and Mount Nickel Mines.
1956	First production from Longvack Mine.
1957	Horace Fraser is elected President and General Manager of the company.
1959	First production from Fecunis Mine.
1961	First production from Onaping Mine.
1962	Ventures Limited and Falconbridge merge, resulting in Falconbridge acquiring substantial interests in a number of well-known mining operations and a world-wide geological staff.
1964	First production from Lake Dufault Mine.
1967	The Superior Oil Company acquires a controlling interest in Falconbridge. Wesfrob Mines, an iron-copper property, starts up at Tasu, B.C.
1968	First production from Strathcona and Longvack South Mines.
1969	Marsh Cooper is elected President of the company.
1971	Falconbridge Dominicana, C. por A. starts up ferronickel operations in the Dominican Republic.
1975	First production from Lockerby Mine.
1977	Four executives of Falconbridge and its Chief Pilot are killed in an aircraft accident at Barrie, Ontario while travelling on company business.
1978	Operation of new smelter and sulphuric acid plant begins at Sudbury, the culmination of environmental control efforts to significantly reduce sulphur dioxide emissions.
1980	Pete Berry is elected President of the company.
1981	First production from Fraser Mine, Falconbridge's first mine designed to metric specifications.
1982	Company changes its name to Falconbridge Limited to reflect its growth and diversity. William James is elected President and Chief Operating Officer of the company.
1983	First public sale of common shares since company was incorporated raises $110 million.
1984	A rockburst at the Falconbridge Mine results in the death of four employees; Falconbridge's oldest operating mine closes shortly thereafter.
1985	An agreement is signed with BCL Limited of Botswana for the long-term supply of nickel matte to the Norwegian refinery. Mobil Corporation, having taken over Superior Oil, sells its entire interest in Falconbridge to Dome Mines Limited.
1986	Falconbridge acquires Kidd Creek, a major copper and zinc producer. Falconbridge sells its interest in Kiena Gold Mines Limited, Giant Yellowknife Mines Limited and Corporation Falconbridge Copper.
1987	Falconbridge sells its 49% interest in Western Platinum Limited of South Africa.
1988	Falconbridge buys back 24.7% of its outstanding shares from Placer Dome Inc. and acquires control of McIntyre Mines Limited. Noranda Inc. acquires 19.9% of Falconbridge. Total production by Falconbridge in Sudbury Operations from 1928 to 1988 is 102 million tonnes of ore averaging 1.41% nickel and 0.84% copper. Falconbridge records earnings of $341 million, the highest in its history.

*Thayer Lindsley was inducted into the Canadian Mining Hall of Fame on January 9, 1989.



FALCONBRIDGE
LIMITED
P.O. Box 40
Commerce
Court
West
Toronto
Ontario
Canada
M5L 1B4

AR44

FALCONBRIDGE LIMITED

40th Floor, Commerce Court West
Toronto, Ontario
M5L 1B4

NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS

TAKE NOTICE that the Annual Meeting of Shareholders of FALCONBRIDGE LIMITED will be held in Commerce Hall, Concourse Level, Commerce Court West, Toronto, Ontario, on

THURSDAY, THE 20TH DAY OF APRIL, 1989

commencing at the hour of 10:00 o'clock in the forenoon (Toronto time) for the following purposes:

1. to receive the 1988 Annual Report including the consolidated financial statements for the year ended December 31, 1988 and the Auditors' Report thereon;
2. to elect directors;
3. to appoint auditors and to authorize the directors to fix the auditors' remuneration; and
4. to transact such other business as may properly come before the meeting.

A copy of the 1988 Annual Report accompanies this notice. If you are unable to be present at the meeting, kindly date, complete and sign the accompanying form of proxy and return it in the enclosed return envelope.

DATED at Toronto, this 1st day of March, 1989.

By Order of the Board,

Secretary

FALCONBRIDGE LIMITED

MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

Solicitation of Proxies

This management information circular and proxy statement (the "Circular") is furnished in connection with the solicitation by the Board of Directors of Falconbridge Limited (the "Corporation") of proxies to be used at the Annual Meeting of Shareholders of the Corporation to be held on Thursday, the 20th day of April, 1989, in Commerce Hall, Concourse Level, Commerce Court West, Toronto, Ontario, commencing at 10:00 o'clock in the forenoon (Toronto time), and any and all adjournments thereof, for the purposes set forth in the attached notice of meeting. Solicitation will be primarily by mail, although proxies also may be solicited personally or by telephone by regular employees of the Corporation and by agents employed by the Corporation. Employees will not receive any extra compensation for such activities. The Corporation has retained The Proxy Solicitation Company Ltd. in Canada and Kissel-Blake Inc. in the United States of America to assist in the solicitation of proxies on the basis of time spent plus disbursements at an estimated aggregate cost of $20,000. The Corporation will also pay brokers, intermediaries or other persons holding common shares in their own names, or in the names of their nominees, in accordance with National Policy Statement No. 41, for sending forms of proxies and proxy materials to beneficial owners and obtaining their proxies. The Corporation will bear all expenses in connection with the solicitation of proxies by management. This Circular is first being mailed to shareholders of the Corporation on or about March 8, 1989.

Exchange Rates for Canadian Dollars

In this Circular, unless otherwise indicated, all dollar amounts are stated in Canadian currency. The average exchange rate of the Canadian dollar into United States dollars during 1988 was Cdn. $1.00 equal to U.S. $0.8155. This average rate is the average of the noon buying rate in New York City for cable transfers, as certified for customs purposes by the Federal Reserve Bank of New York, on the last day of each month during 1988.

Appointment of Proxyholder

The persons named in the enclosed form of proxy are officers or directors of the Corporation. **A holder of common shares has the right to appoint some other person, who need not be a shareholder, to represent the holder at the meeting and the holder may exercise this right by striking out the names of the persons designated and by inserting such other person's name in the blank space provided in the form of proxy accompanying this Circular.**

Revocation of Proxy

A shareholder may revoke a proxy by depositing an instrument in writing executed by the shareholder, or by the shareholder's attorney authorized in writing, either at the registered office of the Corporation at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of such meeting on the day of the meeting, or any adjournment thereof, prior to the time of voting or in any other manner permitted by law, including, without limitation, personal attendance at the meeting.

Exercise of Vote by Proxy

Shares represented by properly executed proxies will be voted or withheld from voting in accordance with the instructions of the shareholder on any ballot that may be called for and, if the shareholder specifies a choice with respect to any matter to be acted upon at the meeting, shares represented by properly executed proxies will be voted

accordingly. **If no choice is specified, the persons designated in the accompanying form of proxy will vote for the election of directors and the appointment of auditors and the fixing of their remuneration by the directors.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. At the date of this Circular, the management of the Corporation knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

Availability of Documents

A copy of: (i) the Corporation's latest Annual Information Form, together with a copy of any documents incorporated therein by reference; (ii) the Corporation's comparative audited consolidated financial statements and the report of the auditors thereon for the year ended December 31, 1988 included in the Corporation's 1988 Annual Report; and (iii) this Management Information Circular and Proxy Statement may be obtained on request without charge from the Secretary, Falconbridge Limited, 40th Floor, Commerce Court West, Toronto, Ontario, M5L 1B4, telephone (416) 863-7000.

Voting Shares and Principal Holders Thereof

The common shares are the only shares entitled to vote at the meeting. At February 24, 1989, 75,159,835 common shares were outstanding, each carrying the right to one vote per share at the meeting.

Each holder of record of common shares on March 3, 1989 is entitled to one vote per share at the meeting except to the extent that such a holder has transferred any common shares after March 3, 1989 and the transferee produces properly endorsed share certificates or otherwise establishes that he owns such shares and demands not later than the close of business on April 10, 1989 to be included in the list of shareholders entitled to vote at the meeting, in which case the transferee is entitled to vote his shares at the meeting.

To the knowledge of the directors and officers of the Corporation, the following table shows the persons who are known by the Corporation to own beneficially, or to exercise control or direction over, more than 5% of its outstanding common shares at the date hereof:

Name and Address of Beneficial Owner	Number of Common Shares Beneficially Owned	Per Cent of Common Shares
Forstmann-Leff Associates Inc. 55 East 52nd Street New York, New York 10055	7,187,000	9.6%
McIntyre Mines Limited 40th Floor Commerce Court West Toronto, Ontario M5L 1B4	9,242,070	12.3%
Noranda Inc. P.O. Box 45 Commerce Court West Toronto, Ontario M5L 1B6	14,870,200	19.8%

The Corporation currently owns all of the outstanding common shares (the "McIntyre Shares") of McIntyre Mines Limited ("McIntyre"). Pursuant to legislation in Canada which governs the corporate affairs of McIntyre and the Corporation, the common shares of the Corporation owned by McIntyre cannot be voted at meetings of the shareholders of the Corporation while the Corporation owns more than 50% of the number of issued and outstanding McIntyre Shares.

On November 24, 1988 Noranda Inc. filed a notice with The Toronto Stock Exchange (the "TSE") indicating its intention to make normal course purchases of up to 10% (approximately 7.4 million) of the outstanding common shares of the Corporation through the facilities of the TSE during the period of approximately six months ending in May 1989.

ELECTION OF DIRECTORS

The current number of directors of the Corporation is 11. The term of office for each director is from the date of the meeting at which he is elected until the next annual meeting of shareholders or until his successor is elected or appointed, unless his office is earlier vacated in accordance with the by-laws of the Corporation.

Unless authority to do so is withheld, the persons named in the enclosed form of proxy intend to vote for the election of all of the 11 proposed nominees whose names are set forth below. Management does not contemplate that any of the proposed nominees will be unable or unwilling to serve as a director. If, for any reason, any of them shall be unable or unwilling to serve, it is intended that proxies given pursuant to this solicitation will be voted for a substitute nominee or nominees selected by management unless authority to vote the proxy in the election of directors is withheld.

At February 24, 1989, all directors, nominees for election as directors and executive officers as a group (of which there are 21) and their associates held 123,860 (less than 1%) of the outstanding common shares, of which 59,200 common shares relate to currently exercisable options.

The table set forth below names each of the 11 nominees for director and gives information concerning his principal occupation for the past five years, his beneficial ownership of common shares of the Corporation as of February 24, 1989 and other matters.

Name and Municipality of Residence (Age)	Principal Occupation for Past Five Years and Certain Other Directorships	First Became a Director	Common Shares Beneficially Owned(1)
WILLIAM JAMES(2)(5) Toronto, Ontario (60)	Chairman of the Board, President and Chief Executive Officer. He is also a director of the Canadian Imperial Bank of Commerce, Falconbridge Gold Corporation, CGC Inc., Fishery Products International Limited, Morrison Petroleums Ltd., The Mutual Life Assurance Company of Canada and Air Canada.	1982	50,000
HAROLD T. BERRY(6) Willowdale, Ontario (71)	Metallurgical Consultant.	1979	5,125
MARSH A. COOPER(3) Toronto, Ontario (76)	President of M. A. Cooper Consultants Inc., a geological consulting firm. He is also a director of McIntyre Mines Limited, the W. M. Keck Foundation and Crownx Inc.	1967	10,000
RUSSELL E. HARRISON(6) Toronto, Ontario (67)	Corporate Director of the Canadian Imperial Bank of Commerce; Chairman of the Canadian Imperial Bank of Commerce until January 1985; Officer of the Canadian Imperial Bank of Commerce until May 1984. He is also a director of TransCanada Pipelines Limited, Campbell Soup Company, MacMillan Bloedel Limited, The Canada Life Assurance Company, ROINS Holding Limited and Royal Insurance Company of Canada.	1978	1,000

Name and Municipality of Residence (Age)	Principal Occupation for Past Five Years and Certain Other Directorships	First Became a Director	Common Shares Beneficially Owned(1)
BERNARD F. ISAUTIER Paris, France (46)	Corporate Director; President and Chief Executive Officer of Polysar Energy & Chemical Corporation (formerly Canada Development Corporation) from May 1987 to August 1988 and President and Chief Operating Officer from September 1986 to May 1987; prior thereto President and Chief Executive Officer of Canterra Energy Ltd. and Chairman of Canterra Energy Ltd. from January 1986 to August 1988. He is also a director of Connaught Biosciences Inc. and Ranger Oil Limited.	1987	1,000
WILLIAM F. JAMES(2)(4) Toronto, Ontario (94)	Consulting geologist and professional engineer. He is also a director of Templeton Growth Fund, Templeton Funds Inc., Templeton Global Funds, Inc. and Grafton Group Inc.	1953	4,700
ALLEN T. LAMBERT, O.C.(6) Toronto, Ontario (78)	Chairman, Trilon Financial Corporation since April 1983; Chairman, London Life Insurance Company from April 1983 to March 1987. He is also Chairman of Hudson Bay Mining & Smelting Co., Ltd. and a director of Atico Financial Corporation, Brascan Limited, Inspiration Resources Corporation, Lonvest Corporation, Rolls Royce Industries Canada Ltd., Royal LePage Limited, Royal Trustco Limited and Western International Communications Ltd.	1987	1,000
DAVID E. LEWIS, Q.C.(6) Calgary, Alberta (75)	Barrister and Solicitor	1979	1,250
GEOFFREY P. MITCHELL(6) Toronto, Ontario (72)	Consulting Geologist; President of Kiena Gold Mines Limited from 1978 to 1984.	1976	7,000
VICTOR A. RICE Toronto, Ontario (48)	Chairman and Chief Executive Officer of Varity Corporation. He is also a director of Varity Corporation.	1985	Nil
EIVIND WIGSTOL(5) Kristiansand, Norway (59)	General Manager and Managing Director of Falconbridge Nikkelverk Aktieselskap.	1979	3,750

(1) No director, nominee for director or executive officer of the Corporation owns beneficially more than 1% of any class of outstanding equity securities or voting securities of the Corporation or any subsidiary of the Corporation.

(2) Mr. William James is the son of Dr. William F. James, both of whom are directors. There is no other family relationship between the directors, executive officers or persons nominated or chosen by the Corporation to become a director or executive officer.

(3) Mr. M. A. Cooper owns 1,672 shares of Falconbridge Dominicana, C. por A., 1,000 shares of Falconbridge Gold Corporation and 1,000 shares of Noranda Inc.

(4) Dr. W. F. James owns 376 shares of Falconbridge Gold Corporation, 2,916 shares of Falconbridge Dominicana, C. por A. and 1,000 shares of United Keno Hill Mines Limited.

(5) Mr. William James owns 50,000 common shares of the Corporation, of which 25,000 relate to currently exercisable options, 2,500 shares of Falconbridge Gold Corporation and 1,147 shares of Noranda Inc. Mr. E. Wigstol owns 3,750 common shares of the Corporation and 52 shares of Falconbridge Gold Corporation.

(6) Messrs. H. T. Berry, R. E. Harrison, A. T. Lambert, D. E. Lewis, Q.C. and G. P. Mitchell respectively own 512, 100, 200, 250 and 700 shares of Falconbridge Gold Corporation.

Directors and Officers Insurance

The Corporation maintains insurance for the benefit of the Corporation and its directors and officers as a group, in respect of the performance by them of the duties of their office. The amount of insurance purchased for 1988 was $10,000,000 per event or occurrence. There is a deductible on a per loss basis of $500,000 for a claim by the Corporation and $5,000 for a claim by a director or officer (to a maximum of $10,000 for all directors and officers per loss). The premium for such insurance for the 12-month period ended December 31, 1988 was $105,976. The premium is paid by the Corporation without distinction as to directors as a group or as to officers as a group.

Information Regarding the Board of Directors and Committees

Certain Committees: Functions, Membership and Meetings. During intervals between the meetings of the board of directors, the Executive Committee exercises all the powers of the board of directors (except those powers specifically reserved by Ontario law to the board of directors) in the management and direction of the business and conduct of the affairs of the Corporation in all cases in which specific directions have not been given by the board of directors. Members of the Executive Committee are Messrs. W. James (Chairman), M. A. Cooper, R. E. Harrison and V. A. Rice. There was one Executive Committee meeting during 1988.

The functions of the Audit Committee are to recommend an independent accounting firm to conduct an annual audit of the Corporation's books and to review with such firm the plan, scope and results of such audit and the fees for the services performed. The Audit Committee also reviews with the independent accountants and the internal auditors the adequacy of internal control systems, receives reports from the internal audit department and reports its findings to the full board of directors. Members of the Audit Committee are Messrs. D. E. Lewis, Q.C. (Chairman), M. A. Cooper and A. T. Lambert. The members of the Audit Committee are directors who are not salaried employees and who are, in the opinion of the board of directors, free from any relationship which would interfere with the exercise of independent judgment as Audit Committee members. There were six Audit Committee meetings during 1988.

The Human Resource Committee approves the salaries and incentive compensation of all executive officers of the Corporation and reviews executive compensation plans of the Corporation. Members of the Human Resource Committee are Messrs. M. A. Cooper, R. E. Harrison and V. A. Rice. There were six Human Resource Committee meetings during 1988.

A standing nominating committee of the board of directors was created on December 17, 1985. The nominating committee is responsible for the initial selection of candidates for election to the Corporation's board of directors. No procedures have been established for the consideration by the Nominating Committee of nominees for director recommended by shareholders. Members of the Nominating Committee are Messrs. M. A. Cooper, and R. E. Harrison.

A Special Committee was created on October 25, 1988 to consider appropriate actions the Corporation may take to preserve and protect the best interests of the Corporation and all of its shareholders with respect to the acquisition of significant interests in the Corporation. Members of the Special Committee are Messrs. H. T. Berry, M. A. Cooper and R. E. Harrison (Chairman). There were four Special Committee meetings in 1988.

Board of Directors' Meetings: There were 19 meetings of the board of directors during the year ended December 31, 1988. All directors who served during 1988 and who are nominated for re-election have attended at least 75% of the total meetings of the board of directors and Committees of the board of directors of which they were members, with the exception of Mr. V. A. Rice who attended 68% of the meetings and Messrs R. E. Harrison and B. F. Isautier who attended 63% of the meetings.

Changes in Directors: Since the date of the 1988 Annual Meeting of Shareholders of the Corporation, the following changes in the composition of the board of directors occurred. Messrs. F. M. Fell, Q.C. and J. S. Walton resigned as directors effective August 15, 1988 and the board of directors was reduced from 13 to 11.

Cash Compensation Table for Executive Officers

The following table sets forth the remuneration paid by the Corporation, its subsidiaries and affiliates for services rendered to the Corporation and its subsidiaries and affiliates in all capacities during the year ended December 31, 1988, to each of the five highest paid executive officers or former executive officers of the Corporation and to all executive officers of the Corporation as a group:

Name	Capacities in which served	Cash Compensation(1)
W. James	Chairman of the Board, President and Chief Executive Officer and Director	$ 611,333.30
J. F. Gillies	Vice President, Marketing and Sales	232,266.68
F. G. T. Pickard	Vice President, Metallurgy and Engineering	230,541.70
Ø. Hushovd	Vice President, Controller and Chief Financial Officer	204,416.66
M. J. Knuckey	Vice President, Exploration	192,030.30
All executive officers as a group (11 persons) including persons named above.		2,355,912.45

(1) In addition to the cash compensation set forth in the table, certain executive officers realized cash upon the surrender of options granted pursuant to the Stock Option Plan of the Corporation (see page 9).

Other Compensation

The aggregate value of other compensation paid to the executive officers as a group did not exceed $110,000.

Stock Option Plan

The Stock Option Plan of the Corporation (the "Plan") was established for the purpose of encouraging directors, officers and employees of the Corporation, its subsidiaries and associated companies to participate in the growth and development of the Corporation. The price for which shares may be optioned shall be not less than the closing bid price for the common shares on the trading day immediately preceding the granting of the option less a discount of 10%. Options are exercisable over a period of 10 years from the date granted. The optionee may also be given the right, at the time of exercise, to surrender the options in return for receipt of cash or shares, or a combination thereof, equal to the excess of the fair market value of the shares over the option price thereof. The Plan is administered by the Human Resource Committee of the board of directors.

Subsequent to the establishment of the Plan, the Corporation made certain amendments to increase the number of shares which are reserved for option from 1,000,000 to 2,500,000 and to include as eligible employees, part-time employees and others who perform services, or who have provided or who are expected to provide services of value to the Corporation, its subsidiaries and associated companies. The exercise prices of all outstanding options were adjusted effective August 16, 1988 as a result of the special cash dividend of $4.75 per common share paid on August 22, 1988 and were further adjusted, effective January 25, 1989, as a result of the dividend in specie of one-tenth of a common share of Falconbridge Gold Corporation per common share which was distributed on January 31, 1989.

Options have been granted pursuant to the Plan on six occasions.

On November 16, 1981, options to purchase up to 610,000 common shares in the capital of the Corporation were granted to certain officers and employees. The option price per share was $11.43 (reduced to $9.41 effective August 16, 1988 and $9.13 effective January 25, 1989) and the closing bid price for the common shares on The Toronto Stock Exchange was $12.70 on the business day immediately preceding the granting of the options. The options expire on November 16, 1991. At December 31, 1988, options on 74,500 common shares had been exercised and 16,500 options had been surrendered for cash.

On August 30, 1983, additional options to purchase up to 507,500 common shares (including 118,125 shares relating to previously lapsed options) were granted. The option price per share was $13.77 (reduced to $11.33 effective August 16, 1988 and $10.99 effective January 25, 1989) and the closing bid price for the common shares on The Toronto Stock Exchange was $15.30 on the business day immediately preceding the granting of the options. The options expire on August 30, 1993. At December 31, 1988, options on 115,375 common shares had been exercised and 132,000 options had been surrendered for cash.

On August 22, 1986, additional options to purchase up to 197,500 common shares were granted. The option price per share was $17.75 (reduced to $14.61 effective August 16, 1988 and $14.17 effective January 25, 1989, if the option holder so chooses at the time of exercise), being the closing bid price for the common shares on The Toronto Stock Exchange on the business day immediately preceding the granting of the options. The options expire on August 22, 1996. At December 31, 1988, options on 13,200 common shares had been exercised, 8,125 options had been surrendered for cash and 7,250 had lapsed or had been terminated due to death or termination of employment.

On December 4, 1987, additional options to purchase up to 610,000 common shares were granted. The option price per share was $20.125 (reduced to $16.56 effective August 16, 1988 and $16.06 effective January 25, 1989, if the option holder so chooses at the time of exercise), being the closing bid price for the common shares on The Toronto Stock Exchange on the business day immediately preceding the granting of the options. The options expire on December 4, 1997. At December 31, 1988, options on 3,375 common shares had been exercised and 17,000 had lapsed or had been terminated due to death or termination of employment.

On February 18, 1988, additional options to purchase up to 17,500 common shares were granted. The option price per share was $20.75 (reduced to $17.08 effective August 16, 1988 and $16.57 effective January 25, 1989, if the option holder so chooses at the time of exercise), being the closing bid price for the common shares on The Toronto Stock Exchange on the business day immediately preceding the granting of the options. The options expire on February 18, 1998. No options are exercisable before February 18, 1989.

At December 31, 1988, the total number of common shares issuable upon the exercise of options was 907,300.

On February 21, 1989, additional options to purchase up to 120,000 common shares were granted. The option price per share is $26.875, being the closing bid price for the common shares on The Toronto Stock Exchange on the business day immediately preceding the granting of the options. The options expire on February 21, 1999. No options are exercisable before February 21, 1990.

The following table sets out, for the named executive officers or former executive officers and for executive officers as a group, the number of common shares covered by options granted pursuant to the Plan, the number of stock options surrendered for cash in 1988 and the number of shares subject to all unexercised options held as of December 31, 1988.

	J. F. Gillies	Ø. Hushovd	W. James	M. J. Knuckey	F. G. T. Pickard	All executive officers as a group
Options granted pursuant to the Plan(1)						
Number of common shares	42,500	15,000	200,000	22,500	57,500	472,500
Options surrendered for Cash						
Jan. 1/88 to Dec. 31/88 . . .	10,000	2,500	90,000	5,625	11,500	121,625
Cash realized	$122,300	$20,000	$1,078,200	$45,000	$144,155	$1,433,615
Options unexercised as at Dec. 31/88						
Number of Common Shares	22,500	12,500	100,000	16,875	35,000	271,625

(1) Includes options on shares granted in 1988 as follows: Mr. J. F. Gillies, 10,000.

During 1988, three executive officers exercised 29,500 options originally granted on August 30, 1983 with an aggregate net value (market value less exercise price at the date of the exercise) of $339,973, and one executive officer exercised 2,500 options originally granted on August 26, 1986 with an aggregate net value of $20,000.

Fees for Board of Directors and Committee Service

Directors of the Corporation were paid a fee of $17,000 each in 1988. Members of the Executive Committee were paid an additional fee of $10,000 each in 1988. Members of the Audit Committee were paid an additional fee of $10,000 each in 1988. Members of the Human Resource Committee were each paid an additional fee of $500 for each meeting attended in 1988. The directors from time to time award special remuneration to any director for performance of special work or service for, or for undertaking any special mission on behalf of, the Corporation beyond the work or services ordinarily required of directors. The representative of the board of directors on the Corporation's Pension Committee was paid an additional fee of $10,000 in 1988. Directors are also reimbursed for their out-of-pocket expenses incurred in the performance of their duties. No confirmation by shareholders of such remuneration or reimbursement payments is required.

Termination of Employment Arrangements

Pursuant to an Employment Agreement dated April 5, 1982 and amended June 23, 1988, Mr. W. James, Chairman of the Board, President and Chief Executive Officer, is entitled to termination compensation following any change of control of the Corporation if his employment ceases for any reason within two years after such a change of control. Such termination compensation is equal to three times the highest annual salary paid, or payable, to Mr. James within the preceding three years of employment. If the date of termination is less than three years before his normal retirement date, the termination compensation would be the highest annual salary prorated by the number of months remaining to retirement divided by 12.

Mr. James is entitled to a supplemental retirement benefit in an amount equal to monthly retirement income under the Corporation's Retirement Income Plan as if he had been an employee since November 1, 1954. Payment of the supplemental retirement benefit commences on the last day of the employment term.

On August 25, 1988 the board of directors of the Corporation approved employment agreements for Mr. J. F. Gillies, Vice-President, Marketing and Sales, Mr. F. G. T. Pickard, Vice-President, Metallurgy and Engineering and Mr. M. J. Knuckey, Vice-President, Exploration under which each is entitled to termination compensation following any change of control if his employment is terminated by the Corporation within two years of such a change of control. Such termination compensation is equal to three times the highest annual salary paid, or payable, to him within the preceding three years of employment. If the date of termination is less than three years before his normal retirement date, the termination compensation would be the highest annual salary prorated by the number of months remaining to retirement divided by 12.

Retirement Income Plan

In 1988 the cost of remuneration payments to be made in the future to ten executive officers of the Corporation under the Retirement Income Plan of the Corporation and Associated Companies (the "Plan") is $127,130. The Plan, which is for salaried employees, including officers, has been in effect since 1942. The Plan has been non-contributory since January 1, 1971. Contributions are deposited with a corporate trustee. Benefits accruing to members of the Plan become vested after 5 years of service for benefits earned before January 1, 1987 and after 2 years of service for benefits earned after January 1, 1987 and are based on the employee's average annual salary for the highest 5 of the last 10 years of service before retirement. As at December 31, 1988, the following executive officers had approximately the following number of years of credited service towards their pension plan: Mr. W. James, 6.75 years; Mr. B. A Ferguson, 24.17 years; Mr. J. F. Gillies, 24.92 years; Mr. M. C. Hughes, 2.75 years; Mr. Ø. Hushovd, 14.50 years; Mr. M. J. Knuckey, 21.50 years; Mr. M. S. Parrett, 5.92 years; Mr. F. G. T. Pickard, 31.67 years; Mr. G. B. Reed, 31.58 years; and Mr. E. A. Seth, 19.50 years. Mr. W. James is also entitled to receive a supplementary retirement benefit (see "Termination of Employment Arrangements").

Based on the assumption that the Retirement Income Plan continued under its existing provisions, the following table illustrates the estimated annual benefits to which employees, including officers, would become entitled at normal retirement date:

Average Annual Salary	Retirement Pension at Age 65 Based on Years of Service					
	15	20	25	30	35	40
$ 50,000	$ 11,250	$ 15,000	$ 18,750	$ 22,300	$ 25,050	$ 27,800
75,000	16,875	22,500	28,125	33,450	37,575	41,700
100,000	22,500	30,000	37,500	44,600	50,100	55,600
125,000	28,125	37,500	46,875	55,750	62,625	69,500
150,000	33,750	45,000	56,250	66,900	75,150	83,400
175,000	39,375	52,500	65,625	78,050	87,675	97,300
200,000	45,000	60,000	75,000	89,200	100,200	111,200
375,000	84,375	112,500	140,625	167,250	187,875	208,500
450,000	101,250	135,000	168,750	200,700	225,450	250,200
525,000	118,125	157,500	196,875	234,150	263,025	291,900
600,000	135,000	180,000	225,000	267,600	300,600	333,600

Mr. G. B. Reed, Vice President, General Manager Sudbury Operations is entitled to a supplemental retirement benefit so that he retires with an unreduced pension under the terms of the Retirement Income Plan of the Corporation.

Mr. M. P. Amsden, Vice President, General Manager Kidd Creek Division, is the only member of the Pension Plan of Kidd Creek for M. P. Amsden (the "Amsden Plan"). In 1988 the cost of remuneration payments to be made in the future under the Amsden Plan is $12,954. As at December 31, 1988, Mr. Amsden had 23.83 years of credited service towards his pension plan.

Transactions with Management and Related Parties

As at February 24, 1989, Mr. Ø. Hushovd, Vice President, Controller and Chief Financial Officer of the Corporation, was indebted to the Corporation in the principal amount of $200,000 pursuant to an interest-free loan made by the Corporation to him at the time of his move from Norway to Canada in 1986. The loan has a term of five years and is fully secured by a second mortgage on Mr. Hushovd's residence in Oakville, Ontario.

On May 10, 1988 Placer Dome Inc. ("Placer Dome") which then owned approximately 52.9% of the outstanding common shares of McIntyre and directly and indirectly, approximately 19.4% (24.7% fully diluted) of the outstanding common shares of the Corporation announced that it proposed to sell its entire direct and indirect holdings in the Corporation, including either all of its common shares of McIntyre or McIntyre's holdings of common shares of the Corporation. On June 16, 1988 Placer Dome issued to the Corporation (and others) an invitation to submit an offer for such holdings.

Following a hearing on June 28, 1988, the Corporation obtained an order (the "OSC Order") from the Ontario Securities Commission that permitted the Corporation to submit an offer to Placer Dome within the time limits stipulated in the invitation. The Corporation then made an offer which, upon being accepted by Placer Dome and McIntyre on June 30, 1988, became the "Securities Purchase Agreement".

The Securities Purchase Agreement provided, among other things, and subject to the fulfillment of certain conditions, that the Corporation would make an offer (the "Offer") to McIntyre shareholders (other than U.S. shareholders) for all of the outstanding common shares of McIntyre, at a price of $64.00 per share on an "ex dividend" basis with respect to a special cash dividend which was to be declared by McIntyre and paid following completion of the Offer. Placer Dome agreed to tender all of the common shares of McIntyre which it held under the Offer. On August 15, 1988 the Corporation acquired 3,212, 312 common shares of McIntyre under the Offer, including the 1,942,534 shares tendered by Placer Dome.

The Securities Purchase Agreement also required the Corporation to propose, following the successful completion of the Offer, a transaction with McIntyre whereby the remaining McIntyre shareholders would have the opportunity to elect to receive in exchange for each common share of McIntyre either cash in the amount of $64.00 per share or approximately 2.52 common shares of the Corporation (or a combination of cash and common shares), or to exercise their right of dissent and receive fair value for their common shares of McIntyre. In order to enable the Corporation to fulfill its obligations under the Securities Purchase Agreement and the OSC Order, a statutory plan of arangement (the "Arrangement") involving McIntyre, its shareholders, and the Corporation was completed on January 24, 1989 and McIntyre consequently became a wholly-owned subsidiary of the Corporation.

The Securities Purchase Agreement also contemplated that, after completion of the foregoing transactions, Falconbridge would declare and pay a special non-cash dividend on common shares of the Corporation in the form of common shares of Falconbridge Gold Corporation (the "Falconbridge Gold Share Dividend"), the assets of which include the Hoyle Pond and Owl Creek gold mines together with certain exploration property interests. The Falconbridge Gold Share Dividend was distributed on January 31, 1989 to the holders of common shares of the Corporation of record at the close of business on January 24, 1989.

At February 24, 1989, to the knowledge of the Corporation, Noranda Inc. ("Noranda") owned approximately 19.8% of the outstanding common shares of the Corporation, all of which have been acquired since June 30, 1988. Prior to that date, the Corporation and its subsidiaries entered into certain agreements with Noranda, all of which were negotiated at arm's length and in the ordinary course of business and none of which is material to the Corporation on a consolidated basis.

Employee Benefit Plan

The Corporation had previously implemented an arrangement for designated employees ("Participants") who elected that specified amounts of the Participant's prospective compensation be contributed by the Corporation to the Trust Fund pursuant to the Employee Benefit Plan (the "Plan"). Contributions made by the Corporation could be supplemented by direct contributions by the Participant. The Trustee is required to invest or reinvest the Fund in qualified investments as directed by the Participant. All income earned by the Fund is payable annually to the Participant and payments, other than income, are payable to the Participant in 180 equal monthly payments commencing in the third month following retirement, whether with the Corporation or another employer, or on the date of determination of total disability or such other date as the Corporation may agree.

There were no contributions to the Plan for 1988 with respect to executive officers of the Corporation.

APPOINTMENT OF AUDITORS

Clarkson Gordon serves as Auditors of the Corporation.

The persons named in the accompanying form of proxy intend to vote the proxy in favour of the appointment of Clarkson Gordon to the office of Auditors of the Corporation for the term expiring with the Annual Meeting in 1990 at a remuneration to be approved by the Board of Directors, unless the shareholder signing such form of proxy specifies that such proxy be voted against such appointment or be withheld from voting thereon.

It is intended that Clarkson Gordon will make an audit of the scope customarily made by them on behalf of the Corporation as indicated in a report to shareholders dated January 25, 1989 set forth on page 26 of the 1988 Annual Report of the Corporation.

Representatives of Clarkson Gordon will attend the meeting and will have the opportunity to make a statement if they desire to do so and will respond to any appropriate questions.

1990 ANNUAL MEETING OF SHAREHOLDERS

The 1990 Annual Meeting of Shareholders of the Corporation is expected to be held on Thursday, April 19, 1990. In order to be included in the management information circular and proxy statement for the 1990 Annual Meeting, shareholder proposals must be received by the Corporation by February 16, 1990.

DIRECTORS' APPROVAL

The contents and the sending of this Circular have been approved by the directors of the Corporation.

Toronto, Ontario
March 1, 1989

Secretary

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